REPORT TO THE

SAN FRANCISCO BOARD OF SUPERVISORS

MANAGEMENT AUDIT

OF THE

PORT OF SAN FRANCISCO

BUDGET ANALYST

FOR THE

SAN FRANCISCO BOARD OF SUPERVISORS

May, 1986

CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET ANALYST

1182 MARKET STREET, ROOM 422

SAN FRANCISCO, CALIFORNIA 94102 · TELEPHONE (415) 558-2641

May 2, 1986

Honorable Nancy G. Walker
Member, Board of Supervisors
Room 235, City Hall
San Francisco, California 94102

Dear Supervisor Walker:

Transmitted herewith is the Budget Analyst's management audit report of the Port of San Francisco. At your request, this management audit was conducted in accordance with Charter Section 2.401 which authorizes the Board of Supervisors to make inquiries concerning departmental operations. The primary purpose of this management audit was to determine if the Port is operating in the most efficient, effective and economical manner.

As shown on pages 9 through 11 of this report, the current Port management team has achieved many important accomplishments. For example, in the last six months, the Port has contracted with three new cargo lines for the purpose of using the Port's container cargo handling facilities. Further, the Port has California's only on-dock intermodal container transfer facility which provides the Port with a cost advantage over other west coast ports because of reduced trucking costs for railroad cargo.

Without intending to minimize the significance of the Port's accomplishments, and acknowledging that the Port throughout this management audit appeared receptive to begin the implementation of some of our recommendations in order to improve the Port's operations, our management audit has identified deficiencies which we believe need the immediate attention of the Port. These deficiencies are as follows:

- The Port has some of the most valuable property on the West Coast. However, over the years, the Port's managers have not developed an integrated plan in order to use the Port's commercial property resources to finance the development of facilities for the maritime and fishing industries. While the Port has made various attempts to develop some of its property for commercial use, and while State regulatory agencies have hindered these attempts, the Port has not been as aggressive in the development of its properties for commercial uses as it has been in developing its properties for the shipping industry. As a result, at least one million square feet of Port property is either unused or underutilized. For example, four parcels on Piers 27/29, 70, 80 and 94/96, which have been vacant for over one year, contain over 434,000 square feet of office and industrial space. Based on a ten percent gross revenue return on estimated property value, the development of all Port property, currently valued at an estimated $1 billion, could result in an estimated $100 million in minimum annual revenues to the Port within twenty years, or over $70 million more than the Port's current annual rental revenues of $29.3 million.

- Since the Port does not allocate revenues and expenditures to its specific facilities, the Port does not know either the total costs of its specific facilities or whether these facilities are operating at a profit or a loss. As a result, the Port is not always able to operate in a businesslike manner. With the lack of this basic cost information, the Port is hampered in making sound decisions and does not know if the expenditures made at a specific Port facility are justified by the revenues generated by that facility. For example, the Port does not know the maintenance costs of either Fishermans Wharf or of Pier 94/96.

- The Port's Accounting Department has inadequate policies for the collection of the Port's delinquent accounts receivable owed by its tenants. The Port currently has delinquent accounts amounting to $3.68 million including some accounts that are over two years old. As of March, 1986, nine tenants owe the Port in excess of $1.6 million and have been in arrears for over 60 days. The Port has written off bad debts of over $700,000 in 1985 and over $400,000 in 1984. As of December 31, 1985, 63.2 percent of the Port's accounts receivable were past due by 90 days or more. Revising Port collection policies and increasing tenant security deposits would increase Port revenues by at least an estimated $40,000 annually.

- The following list of Port tenants is an example of the Port's delinquent accounts receivable. Each of these nine tenants represent delinquent accounts to the Port in excess of $50,000 for over 60 days:

S. F. Port Delinquent Accounts Greater Than $50,000
Overdue by 60 Days or More as of March, 1986

Customer	Amount
California Close Corp.	$703,001
Coastline Associates	79,861
Delta Steamship Lines Inc.	85,726
Dispatch Transportation	76,736
Fritz Maritime	124,610
Marine Terminals Company	52,513
Postermat Friedman Enter.	102,458
Roundhouse Investors	237,657
Sailing Ship Dolphin P. R.	149,211
Total	$1,611,773

- The Port is committing millions of dollars in bond funds and other funds to modernize cargo handling facilities in the hopes of capturing more container shipping business. The Port has ordered two new cranes and is acquiring one used crane at a cost of $6.9 million. Additionally, the Port proposes to rebuild one of its own cranes at a cost of $1 million even though the use of the Port's existing cranes is far below the industry average. In fact, to increase the Port's present crane usage to the industry average, the Port would have to increase the annual number of containers moved by 227 percent from an average of 15,303 containers to an average of 50,000 containers for each of its seven existing cranes which are now used less than five percent of their available time. Clearly, by adding three cranes for a total of 10 cranes, the Port's container handling capacity will far exceed any cargo projections well into the next decade. Therefore, the Port should defer the proposed $1 million rebuilding of its crane and defer an additional estimated $4 million for other cargo handling improvements. This total of $5 million should be productively used for the development of several commercial revenue producing capital projects on Port property.

- Although the Port wharfingers conduct audits to verify wharfage statements, they do not review either the Port's billings and lease agreements or the shipping lines' and terminal operators' payment and related accounting records. As a result, the Port has insufficient data to determine whether it is receiving the correct amount of revenues which it is owed from the shipping lines and terminal operators.

- In lieu of awarding leases, which in some instances require the use of competitive bidding under the Port's procedures, the Port has chosen to award 415 licenses to certain tenants. While these licenses can be terminated by either the Port or the tenant upon 30 days written notice, in fact the Port has permitted numerous licenses to remain in effect for years. These licenses are presumed to have been renewed every 30 days if neither the Port nor its tenants take any action to terminate the licenses. For example, sixty current licenses have been in effect since 1978 or before.

- The following represents examples of tenants which have been operating on Port premises, under a 30-day license, since 1976 or before:

Name of Tenant	Year License Issued
Granex Corp.	1969
Pacific Bell	1969
Spolter, McDonald & Mannion	1975
Woods, Jack and Associates	1975
Marine Exchange	1975
John Stanley Horn, Co.	1976
Exposition Fish Grotto	1976
Christy Truck Lines	1976
P. J. Rhodes & Co.	1976
Mobil Oil Corp.	1976
U. S. Department of Interior	1976

- The following represents examples of tenants operating on Port premises, under a 30-day license, which has been awarded in the last six months:

  Western Rim Company
  Exploration Cruises
  Landor Associates
  Pacific Far East Lines
  Valley Engineers, Inc.
  Walter Allen Construction
  Southwest Marine of S. F.
  Hornblower Yachts, Inc.
  Pier 45 North Beach Star

- At least nine of the 415 tenants which have 30 day licenses pay rents to the Port of over $100,000 annually for space that could be vacated upon thirty days written notice. These tenants are as follows:

  Metropolitan Parking Corp.
  Landor Associates (two licenses)
  Hornblower Yachts (three licenses)
  Service Engineering (three licenses)
  California State Department of Corrections (four licenses)
  Fisherman's Wharf Restaurant (two licenses)
  Burger, Helen
  H & H Ship Service Co.
  Esprit Corp.

- Numerous tenants are occupying Port premises under both leases and 30-day licenses. As previously noted, licenses are simply rolled over forever unless the Port or the tenant wants the license to be terminated. Further, numerous tenants have been awarded more than one license.

- The following represents examples of tenants which have both leases and licenses or more than one license:

  Castagnola's Restaurant
  Cresci Bros., Inc.
  Gelardi's Gift Shop
  Guardinos
  Harbor Carriers Inc.
  Harbor Tours
  Isis Imports Ltd.
  Monterey Fish
  Marine Reef
  Patio Sandwich Shops
  Polar Ice
  Sabella and Latorre
  Scoma's
  Service Engineering Co.
  Sinbad's
  Woods, Jack and Associates

- Since all of the Port's 415 licenses, in contrast to leases, are awarded by the Port without utilizing any competitive bidding procedures, the Port cannot be assured that it has maximized its revenues from these tenants. Further, these licenses are not subject to the approval of the Board of Supervisors even if they are in effect for over ten years and generate revenues to the Port of over $1 million.

- As a result of incomplete data contained in the Port's 117 lease and 415 license files, the Port does not know if its tenants are in full compliance with all of the provisions of these leases and licenses. For example, in the past year, 30 adjustments to increase rent, which were provided for under the lease and license agreements, were not made on a timely basis.

- Under the existing provisions of the Port's leases with some of its restaurant tenants, the Port is entitled to adjust these tenant rents based on amending the percentage of gross receipts every five years. However, the Port has not adjusted these leases for either of the five-year periods beginning in 1980 and in 1985. By failing to adjust tenant rents in 1985 and in 1980, the Port has lost estimated revenues of at least $675,000 from their restaurant tenants. Increasing rents to its restaurant tenants, in accordance with the Port's lease provisions, would result in estimated increased revenues to the Port of at least $380,000 annually.

- No increase, for example, in the percentage rents was made in 1985 for the following four restaurants:

  Fish Alley Bar and Grill
  Franceschi's
  Pompei's
  Scoma's

- Although the leases of these four restaurants, which were awarded in 1974 and 1975, contain provisions for rent adjustments, the Port, to date, has never increased the rental rates payable by these restaurants.

- The Commercial Property Department has not aggressively attempted to lease the Port's commercial, industrial and other space. As compared to a citywide vacancy rate of approximately 13.4 percent for office space, the Port's vacancy rate for office space managed by Port staff, in contrast to the Port's office space managed by outside developers, is an estimated 23.6 percent. As a result of very limited marketing attempts to lease vacant Port facilities, we estimate that the Port has lost at least $298,800 in lease revenues during the past year for just two vacant office buildings located at Pier 27/29 and at Pier 94/96. By developing a sound marketing plan, we estimate that the Port could increase its property rental income by at least $375,828 annually.

- Currently, there are 49 boats being used as residences and 13 non-residential boats moored at China Basin. The Port does not have a signed lease with the houseboat community in China Basin. The Port is now receiving an average of only $12.90 per month for each boat berthed at China Basin, or a total of $9,600 annually for all 62 boats. A market-rate lease for each of these boats would result in an average rent of $264 per boat per month, or a total of $196,800 annually. Finally, the Port has never billed the tenants at China Basin for electricity, resulting in approximately $22,000 in annual electricity costs to the Port.

- The Port expends over $1 million annually to support the Fire Department's operation of the fireboat. However, between 1981 and 1983 the fireboat was used an average of less than once per month and in 1984 and 1985 it was used an average of less than twice per month to fight fires on vessels or along the waterfront. The Port and the Fire Department are in disagreement with each other as to the most cost effective level of fire protection services. Given the level of expenditures, the importance of fire protection and the various alternatives currently available, a professional analysis of this situation by an independent expert experienced in fireboat activities at other ports is warranted.

- PG&E is under an order from the State Public Utilities Commission to develop a plan to take over the Port's electrical distribution system. A timetable for implementing this plan has not yet been fully developed. Provision of electricity by the Port results in an unnecessary burden for the Port's Accounting, Maintenance and Engineering Departments and increases Port liability for damages caused by electrical failure. Further, as of December 31, 1985, 66.5 percent of the Port's outstanding electricity bills were past due by 90 days or more.

In order to correct the deficiencies disclosed in this report, we recommend that the Port:

- Submit legislation to the Board of Supervisors to memorialize the State Legislation to amend the McAteer - Petris Act and the Burton Act to allow for the unique development potential and benefits of the San Francisco Port. The proposed legislation should enable the fundamental intent of these two acts to be applied such that the land near the Bay would be developed for water related uses and public access to the Bay while fully supporting the maritime and fishing industries.

- Develop and implement a strategic plan including the development of all of its commercial property to assist in the financing of facilities for the maritime and fishing industries. Such a plan should include the means to receive at least a ten percent gross revenue return on the estimated $1 billion value of Port property. As an initial step, the Executive Director should create a Property Management Division.

- Track revenues and total costs by specific facility in order to determine the operational and maintenance costs of each facility and in order to determine the revenues which will result from these expenditures.

- Send tenants a rental notice ten days before the monthly rent is due.

- Develop and install new collection procedures, citing authority for actions, and amending the write off policy to include downward adjustment of accounts.

- Increase tenant deposits.

- Develop a comprehensive procedures manual which addresses all collection issues and details the circumstances and authority under which any actions can be taken.

- Develop a program to improve the collection of facility damage claims in order to determine the proper amount due to the Port, in conjunction with the Wharfinger's Department.

- Defer the proposed $1 million expenditure to rebuild its own crane and defer approximately $4 million reallocated for other cargo handling improvements and instead reprogram these bond fund monies, in accordance with the original purposes of the bonds, for other needed Port revenue-generating capital improvement projects which would protect the interest of the bondholders.

- Comply with the recommendations of the City's Advisory Committee on Audits and Agreements by having full audits conducted of shipping lines' and terminal operators' payments. These audits should include both a review of the Port's lease agreements and billings and a review of the shipping lines' and terminal operators' payments to the Port and related accounting records.

- Except for temporary uses, eliminate licenses for the rental of Port land and facilities and instead award short-term leases with a term appropriate for the proposed use and facility, using the guidelines recommended by the City's Advisory Committee on Audits and Agreements. The leases should be awarded on the basis of competitive bidding procedures unless the Port can clearly demonstrate it is not practical to do so.

- Attempt the renegotiation of leases with tenants which hold both leases and licenses in order to combine the leases and licenses into one lease agreement. If such negotiations are unsuccessful, the Port should then consider alternative uses for the premises occupied through a license.

- Generally limit the term of leases for conforming uses to ten years. Require that Port staff evaluate alternative uses of each leased facility and make recommendations to the Port Commission as to the future use of the facility.

- With the assistance of the City Attorney's Office, develop and amend Port procedures as required to permit short-term leases for non-conforming uses of Port lands and facilities. These leases should include recapture provisions for the Port and rent credits for tenant-financed improvements. A conditional use permit would be required from the Planning Commission for such a short term lease.

- Expedite the resolution of the problems with the renovation of the Ferry Building in order to avoid unnecessary duplicative maintenance costs and in order to prepare for the long-term use of the facility.

- Expedite the review and update of its 415 license files. Commercial Property Department staff should work with the Port's Data Processing Department staff to improve and use tickler files more effectively. Direct the Commercial Property Department staff to work with the City Attorney's Office to develop a license document that conforms with current law and current practices.

- Conduct the survey provided for under its lease provisions in order to obtain increased rents from its restaurant tenants.

- Make a major effort to lease the Port's two previously identified vacant office buildings and other vacant facilities and sites.

- Negotiate a market rate lease with the China Basin houseboat community as expeditiously as possible or consider alternative uses for the site. If the houseboat community remains at China Basin, the Port should end its electrical service to the houseboat community and require the residents of the houseboat community to purchase electricity directly from PG&E. We further recommend that Port staff review the houseboat codes used by the City of Sausalito and Marin County for applicability to the China Basin houseboats and develop a similar code to be enforced jointly by the Port and the City. Finally, the Commercial Property Department should be assigned the responsibility for maintaining complete files concerning the houseboat community.

We recommend that the Board of Supervisors:

- Retain an independent consultant, highly experienced in fireboat activities at other Ports, at a total cost of approximately $20,000, to evaluate (a) the efficiency and effectiveness of the existing fireboat and other fire protection services maintained at the Port of San Francisco and (b) various alternative strategies for the Port to further increase its fire protection capabilities, to reduce the long term cost of fire protection and to reduce the Port's overall fire risk.

Finally, with respect to our finding regarding the Port's provision of electricity, we recommend that the Port:

- Develop with PG&E a joint program to encourage tenants to make the required conversions to PG&E service and to purchase power directly from PG&E.

- Develop a strategy to eliminate accounts that amount to less than $20 per month or that have an individual meter.

- As part of the overall capital improvements on Port property, develop and implement a plan for converting service to PG&E on a facility-by-facility basis at Port expense as appropriate.

- Eliminate the clause in renegotiation of present leases and in future rental agreements requiring tenants to purchase electricity from the Port instead of from PG&E and to continue to bill these tenants until such a conversion to direct PG&E service is made.

- Require the houseboat community in China Basin to pay PG&E directly for the electricity it receives and, until the conversion is made to direct PG&E billing, to charge it Port rates, including the Port's surcharge.

- Require tenants who purchase electricity from the Port to post a deposit with the Port similar to the deposit required by PG&E for its service.

Throughout the course of this management audit, we received full cooperation from the Executive Director of the Port and his staff as well from the staffs of other City Departments.

The Executive Director of the Port has had an opportunity to review and comment on this report. His written response, consisting of 22 pages, is attached to our report beginning on page 77. Although he states that our report "... contains many useful recommendations", in general, the response of the Executive Director is sharply critical of our report, referring to it as "disappointing", "misleading" and "deficient". He states that our report "... contains numerous self-contradictions and errors of fact ..." and reflects "... a serious lack of understanding of the legal, political, and economic environments in which the Port must operate."

Although the Port states that our report contains errors, the Port's statements are not based on an examination of our detailed working papers which contain the evidence supporting the facts in our report.

The Port's response states that the most significant "inadequacies" in our report are as follows:

Vacancy rate is miscalculated — The Port's response states that we erroneously calculated a vacancy rate of 23.6 percent. However, the Port's response has included as leased properties the Ferry Building offices of Port staff, the land under the control of the San Francisco Redevelopment Agency and the office space built and occupied by Harbor Carriers under a development agreement with the Port. Through these inclusions, the Port has calculated a 15 percent vacancy rate for "total leasable office space." By including these properties, the Port has understated its actual vacancy rate which we have correctly calculated to be 23.6 percent for those properties directly under the responsibility of the Port's property management function.

Commercial value of Port property is not understood — The Port's response states that the value of Port properties of $1.0 billion used by the Budget Analyst is an "unsubstantiated valuation." As stated in our report, the $1.0 billion was reported in a 1985 report by the Chief Administrative Officer.

Cost estimates are inconsistent -- The Port's response states that our cost estimates are inconsistent because in our summation of total costs, we do not include the $20 million annual cost to correct the Port's deferred maintenance problems. We include neither this $20 million annual cost nor the additional annual revenues which the Port would receive from the development of Port properties over the next decade.

Renegotiation of long-term leases is unlikely -- The Port's response states that it is unrealistic to expect that restaurants in the Fishermans Wharf area would be willing to renegotiate their long-term leases on terms more favorable to the Port in order to protect the smaller parcels of adjacent property now held by the restaurants through month-to-month licenses. These licenses can be terminated by the Port upon 30 days written notice. We have addressed this issue on pages 44 through 46 of our report recommending that, if the tenants are not willing to renegotiate their leases, then the Port should consider alternate uses for those Port parcels awarded on the basis of 30-day licenses.

In general, the Port's response provided information on the Port's past accomplishments and its current plans. However, in our judgment, the Port has not adequately responded to the major problems identified in our report. As one example, we reported that the Port does not know the total operating and maintenance costs of its specific facilities. The Executive Director's response to this finding was "... direct expense information by facility is currently available." (emphasis added) However, the Executive Director does not speak to the issue of total cost data. We submit that the Port cannot provide total cost data by specific facility if requested to do so at this time because it has never made such calculations. We believe that having such basic total cost information readily available is essential if the Port is to operate in a sound, businesslike manner.

Another example of the Port's inadequate response relates to our finding on the Port's bad debts. The Port dismisses this finding by stating, "The $700,000 written off in 1985 was 2.4% of total operating revenues; the $400,000 in 1984 was 1.4%. The Accounts Receivable Write-off Policy was approved by the Port Commission and has been in effect since July 1984. Of the 63.2% receivables 90 days past due, accounts representing 47.5% have been forwarded to the City Attorney and are in litigation. Only 15% are the responsibility of the collections section."

With the respect to our recommendation that Port leases should be awarded on the basis of competitive bidding procedures unless the Port can clearly demonstrate it is not practical to do so, the Port responded, "In today's marketplace, competitive bidding is a pointless and excessively time-consuming exercise."

Finally, the Executive Director states that we are not "... familiar with the maritime industry..." and we do "... not have a firm grasp of the realities of managing Port lands." We acknowledge that we are not maritime experts. We have never held ourselves out to be experts in Port operations. However, we do consider ourselves to be experts in obtaining the facts.

Our report is based on the facts. Complete working papers and other documentation supporting the findings, conclusions and recommendations contained in this report are available in the Office of the Budget Analyst for the review of all interested persons.

In addition to strengthening the overall efficiency and effectiveness of the Port's management and operations, the proper implementation of the recommendations contained in this report would result in a combination of conservatively estimated increased revenues and reduced expenditures of at least $1,004,828 annually. Implementation of these recommendations would require an estimated annual expenditure of $50,000 and an estimated one-time expenditure of $51,319. Further, aggressive development of the Port's unused and underutilized property could result in additional estimated increased revenues of $70 million annually within twenty years.

Respectfully submitted,

Harvey M. Rose
Budget Analyst

Staff: Dwight Steeves, Project Manager
Bill Courtright
Tom Dorn
Kate Harrison
Debra Newman
Merlin Zimmerly

cc: President Molinari
Supervisor Britt
Supervisor Hongisto
Supervisor Kennedy
Supervisor Kopp
Supervisor Maher
Supervisor Nelder
Supervisor Renne
Supervisor Silver
Supervisor Ward
Clerk of the Board
Mayor Feinstein
Roger Boas, Chief Administrative Officer
Eugene Gartland, Executive Director, Port of San Francisco
Edward Phipps, Deputy Chief, Fire Department
John Farrell, Controller
Farnum Alston, Executive Deputy for Program and Fiscal Administration
Mark Kertz, Deputy City Attorney

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INTRODUCTION

At the direction of the San Francisco Board of Supervisors, the Budget Analyst has conducted a management audit of the Port of San Francisco. The primary purpose of this management audit was to review the operating practices of the Port in order to determine if the Port is operating in the most efficient, effective and economical manner. In conducting this management audit, the Budget Analyst was mindful of the 1984 bond issue to improve the Port of San Francisco's container handling and other facilities, the problems encountered in renovating the Ferry Building complex, the preliminary plans to build a hotel on Fisherman's Wharf's Pier 45 which would generate funds to improve fishing facilities on the Hyde Street Pier, overall facility maintenance concerns and the plans to rehabilitate Piers 1, 1½ and Pier 3 for commercial office use.

Our discussion of Port activities requires the use of several terms which may not be familiar. We do not define these terms in the body of the report but in the glossary on page 69. Our use of the word shipping may be particularly confusing. We use it to mean "having to do with ships in port," not its other common meaning--"having to do with the general transportation of goods." However, a shipper is a shipping agent or someone who consigns or receives goods for transportation or is anyone involved with the movement of cargo. We define the word maritime to mean all activities that are directly related to the sea such as shipping, ship repairing, fishing, and passenger liner, tugboat and pilot services, etc.

Audit Procedures

The approach to this management audit consisted of conducting extensive interviews with Port employees, as well as employees of the departments of Public Works, Fire, Real Estate, City Attorney and Controller. We reviewed the State and City laws, City Charter provisions, and Port and City policies and procedures guiding the creation and operation of the Port. We collected data and analyzed records relevant to the day-to-day operations of the Port. In addition, we conducted interviews with employees of the ports of Oakland, Tacoma, Redwood City, Seattle, Long Beach, and Los Angeles, the Fishermans Wharf Merchants Association and with various firms that use Port facilities.

We concentrated our audit procedures in those areas of the Port's management which we believed had the best potential for developing recommendations which, if implemented, would result in improved Port operations. Although we examined portions of the Engineering and Maintenance Departments, our audit efforts were concentrated in other areas. With respect to maintenance facilities, our audit pointed out that the Port does not know the maintenance costs of its specific facilities. We did not evaluate the Port's Personnel Department since this area should be examined in connection with a management audit of the City's Civil Service Department.

General Findings

As we state on page nine, the current Port management team has had important accomplishments. Without intending to minimize the significance of these accomplishments, our report identifies the actions required to improve the overall management of the Port and to take full advantage of the inherent value of the Port's real estate holdings. The Port is essentially a landlord leasing to its tenants facilities and space on land and water. We did not find the Port, as a landlord, to act either as an enterprising property management, development and marketing agency or as a simple

caretaker of the State's lands which it holds in trust. However, we found the Port to be towards the latter of the two extremes.

In the sections of this report that follow, we recommend improvements in the following areas: Port strategic planning, facility accounting, use of the Port's computer, collection and deposit policies, capital project planning, audits of shipping contracts, duration, compliance and adjustments of Port leases and licenses, the leasing of Port facilities, the China Basin houseboat community, fireboat services and the provision of electricity to Port tenants.

Implementation of our recommendations would result in conservatively estimated savings or revenue enhancements to the Port of at least $1,004,828 annually. Additionally, the development of certain Port property, which is presently unused or underutilized, could result in increased revenues to the Port of an estimated $70 million annually within twenty years. Additional annual income in an amount which cannot be fairly estimated should also result from the implementation of our recommendations. However, even more important than the increased revenues which would accrue to the Port from the proper implementation of our recommendations are the improvements which would result to the Port's operating practices. The estimated cost to implement the recommendations contained in this report is $50,000 annually plus $51,319 in one-time costs.

Throughout the course of this management audit, we received the full cooperation of the Executive Director of the Port and all of his staff as well as the staffs of other City departments. They consistently demonstrated a willingness to consider new ideas and alternatives to existing methods of operation. Without their assistance our work for the Board of Supervisors would have been much more difficult.

HISTORY AND ORGANIZATION OF THE PORT

While San Francisco Bay is generally very shallow around its perimeter, requiring expensive dredging in order to accommodate oceangoing ships, San Francisco's Port is a naturally sheltered, deep water harbor which was important to the development of the western United States. The Gold Rush of 1849 stimulated the development of piers, warehouses and related fishing, commerce and ship servicing facilities throughout the City's northern waterfront. The Port emerged as the dominant West Coast Port during the early twentieth century, and numerous additional finger piers were developed as trade increased. The Port proved valuable during World War II as a major Pacific Coast transfer and consolidation point for personnel and material shipped to the war in the Pacific.

After the Korean War, the dominance of the Port decreased as other West Coast ports increased their share of the shipping market. In fiscal year 1984-85, for example, the Port handled only 2.7 million metric tons of shipping or approximately fifteen percent of the total handled by all Bay Area ports. This decline in the San Francisco Port's market share occurred as, during the 1960's, the character of shipping changed with the introduction of containers to replace most "breakbulk" cargo. Because the Port was slow to realize the impact of containerization, it did not then attempt to introduce the equipment required to handle containers efficiently. Instead, it attempted to serve another new shipping technology called Lighters Aboard Ship (LASH). LASH methods were not successful and have been abandoned by the shipping industry. In the late 1970s, the Port began to attract containerized shipping by using its LASH facilities to transfer containerized cargo. Presently, the Port has facilities to handle containerized cargoes at Piers 80 and 94/96. The Port is continuing to develop additional facilities to handle containerized cargo.

The City of San Francisco acquired jurisdiction over the Port's property and operations in 1969. The California Legislature originally established the Board of Harbor Commissioners to develop port facilities and oversee the use of Bay-front property in 1863. From 1863 until early 1969, the State of California had jurisdiction over the Port of San Francisco. In 1968, the State Legislature approved the Burton Act (Statutes 1968, Chapter 1333) transferring jurisdiction over Port land from the State to the City. The voters of San Francisco approved this transfer in November, 1968 and the Port Commission of San Francisco was established in February, 1969, when the City and State jointly approved the Transfer Agreement. The City holds the Port lands in trust for the State; the State could reclaim title to the Port lands at any time for any reason. However, there is no indication at this time that the State wishes to reclaim the Port property.

Port Property

The lands given to the City in trust by the State and the lands that are privately held but under Port jurisdiction (such as Pacific Gas and Electric (PG&E) property located in the southern waterfront area) total more than one thousand acres. These lands occupy approximately 7.5 miles of shoreline from the Hyde Street Pier in the North to India Basin in the South. The trust agreement with the State permits Port property to be used for navigation, commerce, fishing, open space and park purposes.

The Port's lands are divided into six planning zones through plans developed by the City and the Bay Conservation and Development Commission (BCDC). These plans for the six zones govern their long term use. The plans generally discourage or confine non-maritime use to facilities that are declared surplus to commerce, navigation or fishing use. These land-use plans can be amended through City Planning Department procedures. The six zones are described below:

The Fishermans Wharf Zone (Hyde Street Pier to Pier 39) combines commercial fishing uses with tourist-oriented shops, restaurants, sightseeing ferryboat and helicopter tours, entertainment and a marina. The commercial restaurants and shops in this area are among the highest revenue producers for the Port. While not generating a significant amount of revenue to the Port, fishing activities, which include the retail and wholesale marketing of fish, and refueling and ice facilities, are the most active in the San Francisco Bay. The Wharf area has many long-term tenants and a waiting list to rent the fishing facilities.

The Maritime Reserve Zone (Pier 9 to Pier 35) supports a variety of maritime and fishing facilities such as a passenger terminal for cruise lines, seasonal fishing support and service facilities and warehouses, piers, a Foreign Trade Zone, newsprint import and storage, servicing facilities, and tugboat and water taxi berths. The inland seawall lots support offices, restaurants, retail shops and parking are not designated maritime reserve.

The Urban Waterfront Zone (Pier 7 to Pier 24), includes office, retail, and other commercial and recreational uses. This zone contains the Ferry Building, the Agricultural Building, piers and former ferryboats converted for office and commercial uses. There are plans to rehabilitate and refurbish these Port facilities and a new public access promenade has already replaced a series of dilapidated piers. The planned rehabilitation of other Port property in this zone is pending.

The Ship Repair Zone (Pier 26 to Pier 38) has facilities for the repair of ships for the U.S. Navy and private shipping firms. Most of the repair work is done for the Navy. The repairs range from hull and engine work to the installation and repair of modern electronic equipment manufactured by firms in the Bay Area. Ship repair is a steady, ongoing business for the Port.

The South Beach Seawall Lots (Pier 40 to Pier 46) are to be developed into residential, commercial, marina, park and other recreational uses by the San Francisco Redevelopment Agency.

The Southern Waterfront (Pier 48 to Pier 96) is dedicated to a variety of shipping and other maritime uses including loading and unloading of containers, break, liquid and dry bulk cargo and ship repair. The major development planned for this area is the construction of an intermodal container transfer facility (ICTF), which will increase the Port's efficiency of moving shipping containers from ships to trains. In addition, the silt buildup and subsided mud around certain piers will be dredged so that the new deep draft container ships can be accommodated.

Organization of the Port

The Port Commission operates the Port as a City department under the City Charter (Sections 3.500, 3.580 - 3.585 and 7.305), the Administrative Code and other City codes, Tariff 3C of the Port of San Francisco and the laws of the State of California and the United States. The five Commission members are appointed by the Mayor subject to the confirmation of the Board of Supervisors. Members serve overlapping four year terms and may be reappointed. The Port Commission is responsible for developing policies for the Port but the Board of Supervisors must approve the Port's budget, any supplemental appropriations and certain Port leases. The Mayor appoints the Port Director who reports to the Port Commission.

Port staff is responsible for carrying out the policies of the Port Commission in its day-to-day operations. The staff works with other City departments (Real Estate, Controller, Civil Service, Fire, Police, etc.); shipping, railroad and trucking firms; foreign governments, developers, governmental regulatory bodies, and many others to develop and maintain Port lands. The Port has an approved 1985-86 budget of $32,465,868, including the cost of the fireboat activities. The Port has 229 funded positions that are assigned to three Port divisions: Finance and Administration, Maritime Affairs, and Engineering and Maintenance. Note that the Port has not assigned its responsibilities for fishing, navigation, or commerce to any of its organizational entities. Descriptions of the functions of these three divisions follow. The Port's current organization is depicted on page 7.

Finance and Administration

The Finance and Administration Division is comprised of four departments: Commercial Property, Accounting, Personnel, and Data Processing. The Commercial Property Department manages the rental of Port property. This Department generates most of the Port's revenue ($19,336,000 or 66.4 percent in FY 1984-85 including $4,878,000 from maritime property rentals and $14,458,000 from commercial property rentals) through the 532 leases and licenses for commercial property, and its many parking agreements. The Commercial Property Department has made a great many improvements in its management of leases, licenses and parking agreements in the last few years. The Accounting Department is responsible for the Port's centralized purchasing system, for collections, disbursements and recordkeeping of all Port financial transactions, and for coordinating and putting together the Port's annual budget document and accounting procedures. The Personnel Department manages the employment recordkeeping of Port employees. The Data Processing Department processes financial and property data for all Port departments. This Department is also responsible for providing statistical analysis and reporting, especially for the Maritime Affairs Division, and processes the Port's payroll.

Maritime Affairs

The Maritime Affairs Division is organized into five departments: Public Relations, Sales, Marketing, Intermodal and Wharfinger. The Sales and Marketing Departments negotiate with shipping firms, shippers, governments and manufacturers for the use of Port shipping facilities. The Intermodal Department coordinates ship, truck, and rail traffic through the Port. It maintains a smooth flow of operations at the various piers as ships are loaded and unloaded. The Wharfinger's Department works with maritime shipping firms and shippers to insure that billings are accurate. The Maritime Affairs Division is currently making improvements, developing facilities such as an intermodal container transfer facility, demolishing sheds and providing better lighting and better access to all of the Port's container facilities.

Engineering and Maintenance

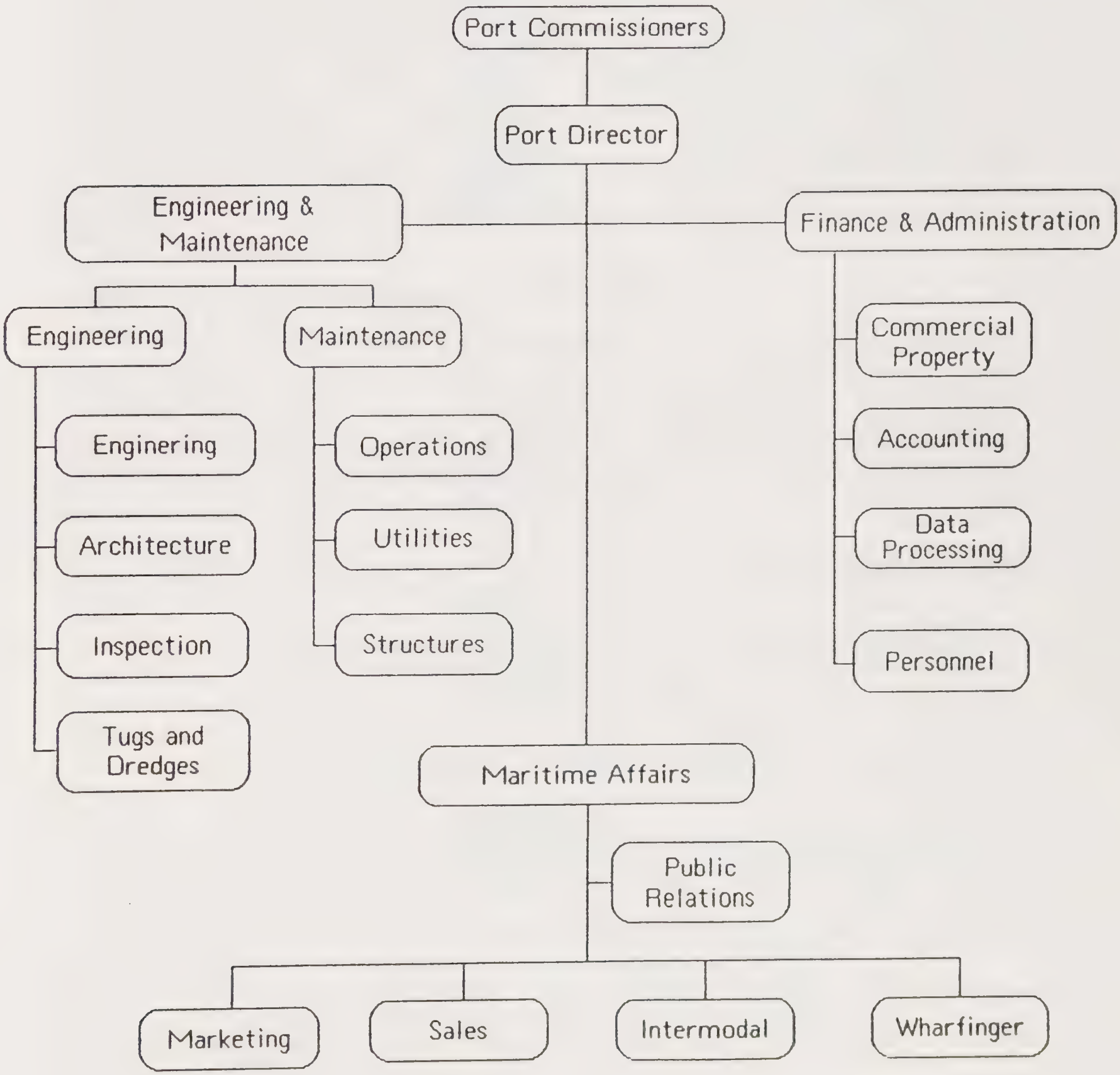
Two departments comprise the Engineering and Maintenance Division: Maintenance and Engineering. The Maintenance Department operates, maintains and repairs the Port's facilities, structures and utilities. The Engineering Department is responsible for engineering, architecture and inspection services and serves as a liaison with private tugboat and dredge services.

Budget

The Port is a self-sustaining operation. The Port operates at an overall surplus mainly through the revenues generated by the Commercial Property Department of the Finance and Administration Division. The Port generates all of its own operating monies and does not receive any General Fund monies from the City. Port funds are restricted to be used for Port purposes under the Burton Act. At this time, any grant monies received by the Port are for specific projects. A summary of the Port's budget for 1985-86 is provided on page 8.

PORT OF SAN FRANCISCO

CURRENT ORGANIZATION



Port Budget 1985-86

Revenues

Category	Estimated Port Revenues
Wharfage, Dockage, Demurrage	$ 7,234,000
Ship Repair	2,720,000
Cargo Facility	644,000
Crane Rental	929,000
Facility Damages	108,000
Rental of Property	13,870,000
Parking Spaces and Meters	1,425,000
Miscellaneous Services to Tenants	150,000
Commercial Power Sales	960,000
Miscellaneous Port Revenues	547,000
Interest Earnings	3,812,868
Penalties and Service Changes	66,000
Total	$32,465,868

Expenditures

Function	Approved Funds	Employees
Maritime	$ 1,484,756	17
Commercial	3,297,707	9
Maintenance	8,241,788	125
Engineering	1,893,897	32
Admin./Finance	16,299,921	46
Subtotal	$31,218,069	229
Facilities Maintenance, Hazardous Waste Clean Up	200,000	
Subtotal	$31,418,069	
Fireboat Operations	1,169,769	
Total	$32,587,838	

Estimated Addition to Port Surplus

Revenues	$32,465,868
Expenditures	32,587,838
Estimated Use of Surplus for 1985-86	$ 121,970

THE CURRENT PORT MANAGERS HAVE ACHIEVED IMPORTANT ACCOMPLISHMENTS

The present Executive Director of the Port has served as a Port Commissioner from 1979 until his appointment as Executive Director in 1983. As Executive Director, he has been responsible for new staff being hired in key positions with positive results in all of the Port's divisions.

Financial

In fiscal year 1982-83, the Port had operating revenues of $26,360,000 and operating expenses of $19,967,000 for a net operating surplus of $6,393,000. These results were improved in fiscal year 1983-84 to $27,621,000, $18,525,000 and $9,096,000 respectively for a net increase in operating surplus of $2,703,000 or 42.3 percent. In fiscal year 1984-85, operating revenues increased to $29,121,000 while operating expenses also increased to $23,653,000 for an operating surplus of $5,468,000. This decrease in operating income of $3,628,000 or 39.9 percent can be attributed to an increase of $4,722,000 in operations and maintenance expense from fiscal year 1983-84. For fiscal year 1985-86, the Port expects to improve net revenue because of increases in revenues from both commercial property rentals and containerized shipping which moves through the Port.

Finance and Administration Division

The Commercial Property Department staff has just completed a review of the Port's 117 leases and is now reviewing the 415 licenses awarded by the Port. The lease review discovered deficiencies in general recordkeeping, timelines of actions and the need for new methods to improve the operation of the Department, especially the need to use the Port's computer more effectively. The staff has developed a data entry form for the Port's computer for leases and licenses that will improve the overall recordkeeping and accuracy of the Department's files.

During the two year period from April, 1984 through March, 1986, the Commercial Property Department has accomplished the following:

- Negotiated and processed 266 new rental agreements, almost all licenses;
- Booked and coordinated 37 special events at Pier 35 and 45;
- Issued and monitored 42 filming permits;
- Increased annual billings by more than $750,000 through lease rental rate adjustments;
- Increased annual billings on existing licenses by more than $635,000 through scheduled rate adjustments;
- Increased rates for parking stalls by 15 to 35 percent;
- Developed and implemented a plan for installing 300 new parking meters;
- Assisted in collecting several hundred thousand dollars in delinquent accounts;
- Audited 117 leases and corrected their compliance deficiencies including the collection of over $175,000 in back rent payments;
- Corrected many squatter/encroachment problems by evicting the squatters or by securing payment for the space; and
- Formalized policies and procedures for various Department activities.

The Accounting Department has made good progress by developing new procedures to perform the Department's tasks and using the Port's computer system to improve the quality of the recordkeeping. These accomplishments include:

- Developed a new collection policy, which, in Section 1.3, we recommend should be improved further;
- Improved collections over last three years through March, 1986;
- Modified the computer system to automatically produce delinquent letters;
- Begun successful use of the Small Claims Court for the collection of receivables previously thought to be not cost effective to pursue;
- Developed new and improved management information reports regarding collections that provide for more effective managing of receivables;
- Began to use improved collection methods, such as shutting off a tenant's electrical power for non-payment after required notice;
- Improved record keeping, including a file, log and extensive documentation on all past due accounts; and
- Developed a new Port budget document and new management reports.

The Data Processing Department is developing new programs for Port staff and maintains computerized records for all Port departments. The Department has proposed a three year plan to be evaluated by staff from the City's Electronic Information Processing Steering Committee (EIPSC) for the use and development of the Port's computer systems. This proposal is currently being evaluated by EIPSC. The Department has also developed documentation for its computer programs, eliminating the need for consultants to service the Port's computer program.

Maritime Affairs Division

Currently there are 27 shipping lines using the Port's cargo facilities and 14 passenger lines using the Port's passenger terminal. In the last six months the Port has contracted with three new cargo lines (Japan Line, Zim Container Service and Island Shipping Line) for the purpose of using the Port's container cargo handling facilities. San Francisco has California's only on-dock intermodal container transfer facility which provides the Port with a cost advantage over other west coast ports because of reduced trucking costs for railroad cargo.

The Port has developed and implemented a competitive pricing strategy that has resulted in increased cargo and new lines for the Port. The Port has actively worked with the ship repair industry and has successfully coordinated efforts to attract more ship repair business to Port facilities. Further, the Port has implemented new procedures to upgrade facilities at Fisherman's Wharf and regularly meets with the fishermen to coordinate Port and Fisherman's Wharf needs.

The overall cargo handled at the Port was 1,320,000 metric tons in fiscal year 1982-83 and 1,901,000 metric tons in fiscal year 1983-84 and 2,735,000 metric tons in 1984-85. The number of passenger ships calling at the Port increased from 59 in fiscal year 1982-83 to 71 in fiscal year 1983-84 to 121 in fiscal year 1984-85. The number of passengers who used the Pier 35 facilities totalled 92,753 in fiscal year 1984-85 as compared to 83,561 in 1983-84, or an 11 percent increase.

Engineering and Maintenance Division

The Engineering Department has provided the technical expertise for the following projects; Intermodal Container Transfer Facility (ICTF), Pier 80 and Pier 94/96 improvements, new container handling cranes for Pier 80, preliminary work for the rebuilding of Pier 30/32, design work for the fishing Pier (Pier 7) and handicap access at the wharfs on Fishermans Wharf. The Port now hires outside firms to do its dredging because it is more cost effective than accomplishing this work on in-house basis.

The Maintenance Department has improved its custodial services at Fishermans Wharf and has continued to maintain the Port's facilities. The Department is now using a personal computer for budget analysis.

Facility Management

The Port has completed a number of facility improvement projects and has a number of other projects in varying stages of completion. Projects completed include the Roundhouse Building which is the former Belt Railroad Roundhouse. This complex is now a 42,000 square foot facility for office and retail uses; the temporary ICTF - completed in the fall of 1984 to provide on dock transfer of cargo containers between railcars and ships at Pier 94/96; major improvements for handling container cargoes at Piers 80 and 94/96; the rebuilding of the Jefferson Street Seawall at Fishermans Wharf; and the installation of a new container handling crane on Pier 80.

Projects now in progress include the building of a breakwater at Fishermans Wharf to protect boats and facilities, Phase I construction of the permanent ICTF on Pier 94/96, improvements to Piers 80 and 94/96 to improve container handling, design of the Pier 7 public fishing facility and the development of Piers 1½, 3 and 5 to provide new office space.

The Port has had major accomplishments for the past two years in its various programs. These improvements have made the Port a more fiscally sound operation.

SECTION I

FINANCE AND ADMINISTRATION

SECTION I.1: STRATEGIC PLANNING

THE PORT HAS SOME OF THE MOST VALUABLE PROPERTY ON THE WEST COAST. HOWEVER, OVER THE YEARS, THE PORT'S MANAGERS HAVE NOT DEVELOPED AN INTEGRATED PLAN IN ORDER TO USE THE PORT'S COMMERCIAL PROPERTY RESOURCES TO FINANCE THE DEVELOPMENT OF FACILITIES FOR THE MARITIME AND FISHING INDUSTRIES. WHILE THE PORT HAS MADE VARIOUS ATTEMPTS TO DEVELOP SOME OF ITS PROPERTY FOR COMMERCIAL USE, AND WHILE STATE REGULATORY AGENCIES HAVE HINDERED THESE ATTEMPTS, THE PORT HAS NOT BEEN AS AGGRESSIVE IN THE DEVELOPMENT OF ITS PROPERTIES FOR COMMERCIAL USES AT IT HAS BEEN IN DEVELOPING ITS PROPERTIES FOR THE SHIPPING INDUSTRY. AS A RESULT, AT LEAST ONE MILLION SQUARE FEET OF PORT PROPERTY IS EITHER UNUSED OR UNDERUTILIZED. FOR EXAMPLE, FOUR PARCELS ON PIERS 27/29, 70, 80 AND 94/96, WHICH HAVE BEEN VACANT FOR OVER ONE YEAR, CONTAIN OVER 434,000 SQUARE FEET OF OFFICE AND INDUSTRIAL SPACE. BASED ON A TEN PERCENT GROSS REVENUE RETURN ON ESTIMATED PROPERTY VALUE, THE DEVELOPMENT OF ALL PORT PROPERTY, CURRENTLY VALUED AT AN ESTIMATED $1 BILLION, COULD RESULT IN AN ESTIMATED $100 MILLION IN MINIMUM ANNUAL REVENUES TO THE PORT WITHIN TWENTY YEARS, OR OVER $70 MILLION MORE THAN THE PORT'S CURRENT ANNUAL RENTAL REVENUES OF $29.3 MILLION.

The recent development of the Port's Intermodal Container Transfer Facility (ICTF) has been a significant achievement. When first begun, the ICTF and Pier 80 modernization projects had immense problems to overcome. Large scale development and financial plans were made, Revenue Bonds for $42.5 million were approved and marketed, complex engineering work was done within tight schedules, contracts with shipping lines were entered into for use of the new facilities, and railroad access was designed and negotiated under very difficult and unusual circumstances. All this was done in little more than a year. Further plans for additional maritime development are underway which could require an additional expenditure of $50 million.

However, the Port has not pursued the commercial development of its properties with the same enthusiasm with which it develops properties for maritime purposes. Often, commercial development at the Port falters when a difficulty is encountered. This limited enthusiasm to develop its commercial properties is unfortunate because the Port needs revenues from commercial development to finance further maritime improvements.

The Port has a Maritime Strategy, last revised in 1979, which provides that "...Port development should maintain a proper balance of maritime, non-maritime, and public uses, and that revenues generated from commercial/recreational and office uses be dedicated to the support of growth and modernization of the Port's southern waterfront." Not only is the Port unable to finance a plan for balanced development, the Port is unable to fund $200 million of deferred maintenance and repair required to restore its piers to good condition.

In other words, the Port has invested the current limit of its financial resources into maritime development while its other facilities are deteriorating. In addition, the investment into maritime development is not without risk. If the forecasted increased cargoes of the Port's shipping lines do not materialize or if the business of the shipping lines with which the Port contracts otherwise declines, these shipping lines could be forced to abandon their obligations to the Port. The Port's risk is summarized by the following:

> The economics of modern ocean shipping favor large specialized, vessels, but to operate profitably these vessels must keep the amount of time spent in port to a minimum. Ports noted for rapid turn-around-time are, therefore, very attractive to modern shippers, and as a result, the competitive pressure on U.S. seaports has been to develop large, special purpose cargo handling facilities. This competition has resulted in some over-capitalization as seaports that win competitive battles increase their cargo handling capacities to take advantage of economies of scale while those that lose find themselves with idle capacity that cannot be transferred to high traffic areas. Some over capacity may be useful at active ports to handle peak load requirements, but when the competitive battles are over, facilities at many smaller U.S. ports will remain underutilized even during peak load periods.*

A tour of the Port's real estate provides evidence that some of the Port's maritime development of prior years is not utilized and has deteriorated, resulting from the over development of prior administrations. The current administration's enthusiasm for quick and aggressive maritime development may be taking advantage of immediate market opportunities and competitive pressures, but it also raises questions about the Port's present capability to finance needed maintenance of its facilities and its long-term ability to continue to finance ongoing service to the maritime industry.

The Port's properties are valuable. Its facilities are estimated to be worth more than one billion dollars.** On the West Coast, only oil producing land may be more valuable than the Port's properties. Other sections of this report show that the Port does not develop its valuable properties and manage them in an attentive and aggressive manner. We discuss specific causes and solutions for these deficiencies within the individual sections. However, there is a more universal cause for these difficulties. As the manager of 799 acres of very valuable property, the Port does not have a clear long term strategy for the development and management of its real estate holdings.

The Port's managers have focused attention on the development of the Port to serve the maritime shipping industry. Concurrently, the Port's managers have restricted the development of the Port for other commercial uses because their attention has been on maritime development since the Port relies on an understanding that maritime

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* From The Economic Structure of California Sea Ports, Dennise M. King, PhD. and James Liedke-Konow, 1985; produced by National Technology Information Service, U.S. Department of Commerce, Springfield, Virginia, as part of a California Sea Grant College Program, La Jolla.

** The City's Chief Administrative Officer's 1985 report on the state of the City's infrastructure estimates the Port's facilities to be worth at least one billion dollars. The Port's staff states that no one knows the true value of the Port. A comprehensive appraisal of the Port property has never been made.

development benefits the City more than commercial development and because of certain City Planning and Bay Conservation and Development Commission (BCDC) restrictions on the use of Port land. The City Planning Department and BCDC restrict the Port from developing its maritime reserve lands with non-maritime projects which would restrict future maritime activities. Therefore, the Port has not aggressively pursued commercial development alternatives for its maritime designated lands which either could be placed on the periphery of maritime facilities without interfering with their use or could be placed temporarily within Port maritime zones.

The Port needs to emphasize the point that, because the non-maritime commercial development of the Port is needed to finance the development and operation of the Port's maritime and fishing facilities, what would be considered to be non-maritime commercial development could be considered to be development for maritime purposes. For the Port to maintain and to expand its maritime or its fishing facilities and/or operations, it needs to increase the income generated from its commercial operations.

However, the State Lands Commission restricts the Port from projects which are required to finance the maintenance and development of Port lands for public trust purposes. In fact, the State Lands Commission cites the Port's public trust responsibilities in turning down approval of Port projects which not only are needed to finance other maritime and fishing projects but would also directly serve the public. The State Lands Commission restricts the Port to the public trust doctrine embodied in the State Constitution. This doctrine requires that Port lands be used for purposes of statewide importance and not purely private use. The State Lands Commission restricts the Port from developing office space or other facilities unrelated to the conduct of water borne commerce or purposes of statewide importance. The State lands Commission requires that the Port and its potential developers submit criteria demonstrating that the potential tenants are directly related to the maritime or fishing industries and that there is a demand by such potential tenants for 150 percent of the space proposed to be developed. For example, plans to build housing on Pier 45 were explicitly prohibited under the public trust doctrine of the State Lands Commission.

BCDC also has mandates which, as they are applied to the Port, are contradictory. While BCDC's Bay Plan encourages the Port to develop facilities for water related uses and public access to the Bay, it also is constrained to limit the Port's capacity to finance these facilities. The position of the State lands Commission and BCDC that, in effect, the Port must put all development to low revenue producing maritime purposes or do no development at all is untenable. The Board of Supervisors could memorialize the State Legislature to amend the McAteer-Petris Act (governing BCDC) and the Burton Act (transferring the State trust lands) in order that the unique development potential and benefits of the San Francisco Port be allowed in such manner that the fundamental intent of these two acts may be fully carried out.

Because of the limited revenues available from maritime and fishing industry use, additional revenues from other commercial operations are needed to fund additional Port development in the maritime and fishing areas. The Port currently receives approximately 66 percent of its revenues from its Commercial Property Department (including 49 percent from commercial property rentals and 17 percent from maritime property rentals) and only 27 percent of its revenues from its Maritime Affairs Division operations.

An effect of the Port's inability to aggressively pursue commercial development is demonstrated by the more than one million square feet of undeveloped or underutilized Port property. For example, four Port parcels on Piers 27/29, 70, 80, and 94/96 have

been vacant for over a year. These parcels alone contain over 434,000 square feet of office and open and enclosed industrial space. There are additional thousands of square feet of Port property on finger piers and various seawall lots which are either unused or underutilized. These properties are listed in the Appendix.

Nevertheless, the Port has been recently involved with several development projects. The following lists the status of these projects:

Project	Status
Ferry Building Complex	In litigation
Piers 1½, 3, and 5	Awaiting BCDC and other agency permits
Pier 7, Fishing Pier	Plans nearly complete
Pier 35 Passenger Terminal	Passenger lounge completed Additional improvements are being studied.
Hyde Street Pier/ Pier 45	Preliminary plans made
Fishermans Wharf Breakwater	Under construction

Of these projects, the Hyde Street Pier/Pier 45 project is an interesting case study. It is a mixed-use project in which commercial hotel development on Pier 45 is being used to finance facilities to serve the local fishing industry at the Hyde Street Pier. Developers will be given the option of building and operating the Hyde Street Pier as part of the public investment required of them, or to pay for the development at the Hyde Street Pier "up front." This project integrates both commercial and fishing industry development not only in the financing of one part with the other but by integrating both in the environmental and regulatory process. Such multi-use integration of development could be considered for land throughout the Port.

Because aggressive commercial development of the Port is essential to the Port's maritime and fishing purposes, the Port must form a clear long term strategic plan for commercial development which will complement and finance future maritime development and maintenance. However, the Port may be forced at times to relinquish certain maritime facilities in order to raise funds to develop other maritime facilities which may give more benefit to the City. In the Port's current situation, in which all of its current financial capacity has been obligated to support its revenue bonds and its facilities have significant maintenance and repair requirements unmet, a reasonable, detailed, and aggressive development strategy is essential.

In the immediate term, currently unused Port property could be developed by private developers under contract to the Port. The revenues from such development could be used to retard and, eventually, to eliminate the continued deterioration of Port facilities caused by deferring required maintenance and repair. The Port could give special emphasis to developing additional revenue sources to fund the rehabilitation of the Fishermans Wharf area's structural supports of old weathered wooden pilings. These pilings support the area's piers, restaurants, public space and the public use and parking area around and including Pier 43 and Pier 43½.

Over the short-term, say ten years, with the implementation of an aggressive development strategy, the Port could develop its unused and underutilized property and could at least double its current rental revenues from its present revenues of $19.3 million ($29.3 million including revenue from shipping facility use) annually to approximately $40 million annually. Including an additional approximately $10 million in revenue from shipping facility use for a total of $50 million, this would amount to only a gross 5.0 percent revenue return from property estimated to be worth more than one

billion dollars. In addition, the Port could create a reasonable long term development strategy which would provide it, within twenty years, with annual revenues from its property equal to a conservative ten percent of the property's value, amounting to approximately $100 million annually or over $70 million more than it is presently realizing on an annual basis. Managed well, the Port could earn considerably more than a 10 percent gross revenue return from its properties.

Implementing a Port development strategy would incur significant additional cost to the Port. The rehabilitation of currently developed Port property is estimated to be $20 million annually over a ten-year period. However, the Port has not made active plans to rehabilitate its property. In order to aggressively develop the Port's unused and underutilized properties, the Port must have a development staff and significant additional capital investment. The Port could develop its property through the use of agreements with private commercial property firms.

The Port could take an important initial step towards instituting an increased emphasis on commercial development by revitalizing the current Commercial Property Department. A proposed Property Management Division could be organized as shown on page 19 and would consist of three departments: Lease Administration, Marketing, and Development. The existing staff would continue to administer the programs concerning leases and licenses, develop new leases and agreements and actively promote the Port's property. Marketing services could come from staff or contractual services as discussed in Section III.4. Planning and development assistance is needed to develop a strategic development plan for the Port. A plan with a timetable and cost estimates could be developed for evaluation by the Port Commission.

Under the Commercial Property Department's current status, it appears to be a passive money collector with staff that is there merely for the maintenance of accounts. We believe it should be charged with the responsibility of developing new leases, marketing and improving its business methods. It would also focus on a program to rebuild existing Port facilities and to develop the Port's unused property.

CONCLUSION

At least one million square feet of Port property is either unused or underutilized. The Port's managers have not developed an integrated plan in order to use the Port's valuable commercial property resources to finance the development of facilities for the maritime and fishing industries. The Port's long term development strategy could include the means to receive at least ten percent gross return on the estimated $1 billion value of Port property. However, the current application of State laws hinder the Port from developing its land profitably, although such "profit" is needed to finance other Port objectives which the same State laws encourage.

RECOMMENDATION

We recommend that the Port submit legislation to the Board of Supervisors to memorialize the State Legislature to amend the McAteer-Petris Act and the Burton Act to allow for the unique development potential and benefits of the San Francisco Port. The proposed legislation should enable the fundamental intent of these two acts to be applied such that the land near the Bay would be developed for water related uses, and public access to the Bay while fully supporting the maritime and fishing industries.

We recommend that the Port develop and implement a strategic plan including the development of all of its commercial property to assist the financing of facilities for the maritime and fishing industries. Such a plan should include the means to receive at least a ten percent gross revenue return on the estimated $1 billion value of Port property. As an initial step, the Executive Director should create a Property Management Division as discussed above.

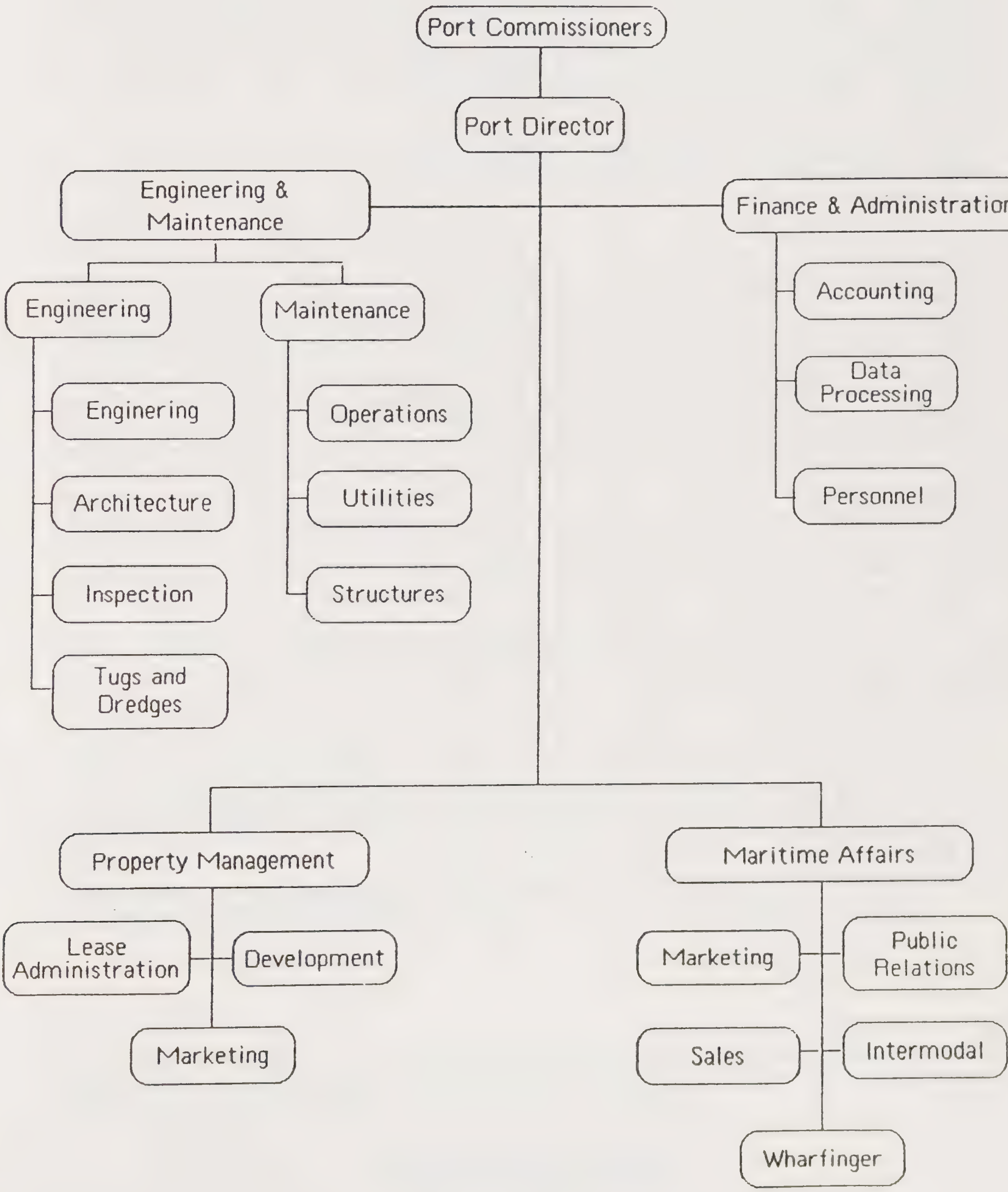
COST/SAVINGS/BENEFITS

The implementation of this recommendation would require the Port to spend an estimated $20 million annually over ten years and would require a significant undetermined amount of capital investment and personnel cost. By aggressively pursuing the development of this unused and underutilized property, consisting of at least one million square feet, the Port should be able to negotiate agreements with private commercial development property firms to develop its unused and underutilized Port property in order to raise the revenue necessary for its maintenance requirements.

The full implementation of this recommendation would allow the Port the means to develop all of its property and to finance facilities, as needed, to serve the maritime and fishing industries. This would include the means to receive an additional $20 million per year by the end of the next ten years and an additional $50 million annually within twenty years or in excess of $70 million annually over current annual revenues of $29.3 million.

PORT OF SAN FRANCISCO

PROPOSED ORGANIZATION



SECTION I.2: FACILITY ACCOUNTING

SINCE THE PORT DOES NOT ALLOCATE REVENUES AND EXPENDITURES TO ITS SPECIFIC FACILITIES, THE PORT DOES NOT KNOW EITHER THE TOTAL COSTS OF ITS SPECIFIC FACILITIES OR WHETHER THESE FACILITIES ARE OPERATING AT A PROFIT OR A LOSS. AS A RESULT, THE PORT IS NOT ALWAYS ABLE TO OPERATE IN A BUSINESSLIKE MANNER. WITH THE LACK OF THIS BASIC COST INFORMATION, THE PORT IS HAMPERED IN MAKING SOUND DECISIONS AND DOES NOT KNOW IF THE EXPENDITURES MADE AT A SPECIFIC PORT FACILITY ARE JUSTIFIED BY THE REVENUES GENERATED BY THAT FACILITY. FOR EXAMPLE, THE PORT DOES NOT KNOW THE MAINTENANCE COSTS OF EITHER FISHERMANS WHARF OR OF PIER 94/96.

The Port manages its own maritime, fishing and commercial property which extends from the Hyde Street Pier on the north to India Basin on the south. These properties are used for fish processing, restaurants, offices, passenger terminals, a foreign trade zone, ship repair, automobile parking and open space as well as for the storage and movement of breakbulk, dry bulk and liquid bulk and container ship cargoes. Port facilities require Port expenditures for maintenance and repairs and for the provision of capital improvements. Estimated to have a total facility value of at least one billion dollars, in 1985 these facilities generated $29 million in revenues from five sources:

- Funds from agreements for the operation of cargo facilities;

- Maritime related rents: revenues received from maritime related uses such as fishing operations, tugboats, passenger lines and railroads;

- Rental fees for the use of non-maritime Port facilities: flat monthly rental fees for use of Port space, including offices, restaurants and other commercial uses;

- Percentages of non-maritime gross receipts: Port rents based on a percentage of monthly gross receipts for facilities including restaurants, gift shops, parking lots and gasoline sales. While all non-maritime facilities pay a rental fee to the Port, only some pay a percentage of gross receipts in addition to their base rent;

- Ship repair payments: rental payments from tenants of the ship repair facilities. These rental revenues are currently recorded as maritime revenues.

Management Concerns

The Port has established goals, as reflected by the goals in its Management By Objectives (MBOs) plan, for maximizing the total revenues received from its existing developed facilities. The Port Commission receives information on the cost of operation of the various Port programs, such as the maintenance program, as well as the total cost of operation of each division and department of the Port. As a result, the Commission knows the total costs of operation and the total revenues generated for the Port and evaluates performance by comparing actual costs to amounts budgeted for each particular organizational unit. But the Commission does not receive cost information for each specific facility. For example, the Port does not know the maintenance costs of either Fishermans Wharf or of Piers 94/96, even though they receive information on total Port maintenance costs.

The Port has not established, as one of its objectives, the maximizing of the profits of each of its individual facilities and has not directed staff to analyze the profitability of each of the Port facilities. Nor has the Port Commission established a minimum acceptable rate of return which the Port is expected to receive from the management of each parcel of Port land. As a result, while the Port as a whole may be operating at a profit, individual facilities may be losing money or simply earning less revenue than if they were used for another purpose. In addition, without reference to the profitability of individual facilities, the Port cannot effectively judge whether a particular expenditure at a facility is justified by likely increases in facility revenues (see Section II.1).

The data necessary to measure whether or not each Port facility is operating profitably is currently not readily available. The Port does not collect information concerning the cost to operate any of its facilities and does not readily have data for revenues generated by each facility, although revenue information for each facility could be manually tabulated from existing files. The Port also does not allocate capital expenditures, debt service expenses (which will average more than $6 million per year through the year 2008), or depreciation costs, and internal overhead expenses including administration costs, accounting costs, and data processing costs. Because the Port does not account for its total costs or revenues by facility, it cannot analyze a facility as a cost center and compare the cost to operate that facility to the revenues generated by it. For example, if the Maintenance Department makes a repair to a particular pier, the appropriate program accounts are charged based on the information on the job order. However, since there are no charges shown against the pier, the Port does not know the cost to operate and maintain that facility. As a result, the Port is unable to decide whether continuing the current use of that facility is desirable.*

This weakness in cost and revenue accounting hinders both the short-term and long-term planning and the development of policies affecting the Port. The absence of cost and revenue accounting by facility was pointed out in a 1983 audit of the Port by Deloitte, Haskins and Sells, and has been discussed in subsequent Port audits. However, the Port has not yet implemented an accounting system which would assign costs and revenues to the associated facility.

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* The fact that a facility or service operates at a loss does not necessarily mean that it should be discontinued. For example, the City offers many services for which certain departmental revenues are much less than expenditures.

The Port has planned to implement a computerized cost accounting system in the current year and requested approval from the Electronic Information Processing Steering Committee (EIPSC) to begin immediately. EIPSC is now considering this request. The Port has plans to incorporate revenue accounting by facility in this proposal. Regardless of the outcome of its EIPSC request, the Port should immediately begin to collect cost and revenue data by facility. This data will be needed for entry into the computer, if approved, and can be analyzed manually if the computer request is instead denied. Analysis of this manually gathered data could aid the Port staff in developing the requirements for the proposed computer system.

CONCLUSION

The Port does not allocate revenues or expenses by facility and thus cannot make informed management decisions about the use of each of its facilities. As a result, the Port is not always able to operate in a businesslike manner, using information and developing strategies that are based on sound financial and management analyses. This is particularly damaging to the Port, because unlike other City departments, the Port must generate all of its own revenues. Good business practices are crucial to the survival to the Port.

RECOMMENDATIONS

The Port should immediately begin to track revenues and total costs by specific facility in order to determine the operational and maintenance costs of each facility and in order to determine the revenues which will result from these expenditures.

SAVINGS/BENEFITS

Cost and revenue accounting by facility will allow Port staff to make informed management decisions about its facilities and improve both short and long term planning and policy making.

SECTION I.3: COLLECTION PROCEDURES

THE PORT'S ACCOUNTING DEPARTMENT HAS INADEQUATE POLICIES FOR THE COLLECTION OF THE PORT'S DELINQUENT ACCOUNTS RECEIVABLE OWED BY ITS TENANTS. THE PORT CURRENTLY HAS DELINQUENT ACCOUNTS AMOUNTING TO $3.68 MILLION INCLUDING SOME ACCOUNTS THAT ARE OVER TWO YEARS OLD. AS OF MARCH, 1986, NINE TENANTS OWE THE PORT MORE THAN $1.6 MILLION AND HAVE BEEN IN ARREARS FOR OVER 60 DAYS. THE PORT HAS WRITTEN OFF BAD DEBTS OF OVER $700,000 IN 1985, AND OVER $400,000 IN 1984. AS OF 12/31/85, 63.2 PERCENT OF THE PORT'S ACCOUNTS RECEIVABLE WERE PAST DUE BY 90 DAYS OR MORE. REVISING PORT COLLECTION POLICIES AND INCREASING TENANT SECURITY DEPOSITS WOULD INCREASE PORT REVENUES BY AT LEAST AN ESTIMATED $40,000 ANNUALLY.

The Accounting Department of the Finance and Administration Division is responsible for collecting monies owed to the Port. These monies are known as accounts receivable. The majority of the receivables collected are commercial rent payments for Port facilities including restaurants, offices and related uses. Some tenants are also billed for Port-supplied electricity purchased by the Port from Pacific Gas and Electric (PG&E) (see Section IV.3), other tenants are billed for the use of monthly parking spaces, some tenants pay for repairs or other construction to Port property and some tenants and non tenants are billed for damages done to Port property for which they are responsible. In addition, the Accounting Department administers the Port's revenue sharing program with shipping companies and terminal operators.

Collection Standards

The Port requires tenants to deposit an amount equal to the tenant's minimum monthly rent, for tenants with percentage of gross receipts rentals, or actual monthly rent, for tenants with flat rate rentals. The Billing Section of the Accounting Department mails bills for tenant rentals on the first of the month for rent due that day.* Persons who rent parking spaces must pay their rent to the Port by the twentieth of that month or the Department will consider their account to be delinquent. Tenant rentals are considered delinquent if not paid by the first of the month but the Port does not pursue delinquent accounts until thirty days past due. Until recently, after thirty days from the due date, the Collection Manager would mail a manually generated delinquency notice to the tenant and place a note in the tickler file indicating that further action should be taken fourteen days later. The Department has developed a computer process which automates this stage of the collection process which was recently put into operation in March, 1986. After another fourteen days, delinquent

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* The Port mails electric utility bills once a month after the Port receives the billing from Pacific Gas and Electric and adds on the Port's 25 percent surcharge. These bills are not necessarily mailed on the first of the month.

tenants are sent a final notice. Copies of these notices are sent to the City Attorney's Office and to the appropriate operating division (to the Commercial Property Department for delinquent rents, or to Maritime Affairs for delinquent shipping accounts, for example). Finally, after another seven days, the City Attorney's Office sends the delinquent tenant a three day notice to either pay or leave the premises. The Port then takes legal action against clients who are delinquent in paying monies owed to the Port. Such actions include the serving of complaints of unlawful detainer and the petitioning of small claims court.

The Port's Commercial Property Department staff have stated that they are concerned about getting the delinquent tenant removed from the Port property because by getting the delinquent tenant out of Port property, it can be rented to a new paying tenant before further rental income is lost to the Port. However, the Port could evict non-paying tenants and reduce rent losses by combining effective eviction and collection procedures and by increasing tenant deposits as described below. For example, if the eviction process took two months and the tenant did not pay any rent to the Port, an increased deposit equal to the two month's rent could assure that the Port would not lose money from the delinquent tenant.

Deposits

The Port requires tenants of Port property to post a bond equal to one month's rent as security for the Port in the event that the tenant neglects to pay the required rent. The form of this bond can be either cash or an investment instrument that is acceptable to the Port. For cash deposits, the Port retains interest earnings. For instruments held by tenants, the tenant retains the interest earned.

The Port does not require deposits for other Port services such as the provision of electricity or repairs for Port property used by tenants. Similarly, the Port does not require security deposits for potential damage to Port property rented by tenants or for the transportation and storage of tenant property that is left in or on Port facilities should the tenant be evicted from or abandon the Port property.

The thirty day rent deposit is inadequate for an eviction process that takes a minimum of 54 days to complete and the eviction can take much longer because the eviction process often requires the City Attorney to take action to remove tenants who do not wish to leave Port facilities. Thus, the Port is unnecessarily exposing itself to a loss of at least 24 days rent because the deposit amounts do not completely cover the rent for the time required to evict a tenant.

Because the eviction process can take so long, a case can be made that the required deposit should be the equivalent of three month's or more rent. However, this could be a major burden for many tenants. Therefore, we recommend that the deposit for tenants should be increased to the equivalent of only two month's rent plus an amount for potential damage to rented Port property, security, moving and storage of tenants' property. Such a deposit could be fully refundable at the end of the tenancy, if appropriate. Tenants who wish to use a certificate of deposit would also include the Port, as a co-holder of the certificate as per present practice. In addition, as long as the Port provides electricity to its tenants, it could also require a deposit of the estimated equivalent of two month's billings for electrical service, which is the PG&E standard.

In 1984, the Port wrote off bad debts of $477,501 and in 1985 the Port wrote off $753,321.* Based on a sample of writeoffs in accounts that could be protected by a deposit, we estimate that at least $40,000 annually need not have been written off by the

Port had the Port had a deposit policy described above. Deposits could have been forfeited and absorbed by the Port as an offset to delinquent rental revenues. As of December 31, 1985, the Port's Accounts Receivable totaled $3.68 million of which $2,331,637 or 63.2 percent is in accounts more than 90 days past due. The Port's outside auditors annually adjust the Port's receivable accounts by establishing a reserve for bad debts to reflect the anticipated level of collectable receivables. Applying the outside auditors' most recent estimate of the potential rates of uncollectables to the Port's current accounts receivable balances, the Port has a potential write off of bad debts of as much as $1,428,000 or 38.8 percent. In other words, the Port can expect that, based on past practices, over one third of the money due to the Port will not be collected.

The Port has had problems collecting the deposits required by Port policy. The Commercial Property Department files have copies of letters to tenants requesting tenants to pay additional deposit monies for rent increases that took place many months before. As of December 31, 1985, the Accounts Receivable report lists $44,504 of deposits that are past due. Of this amount, $10,235 is overdue by thirty days and $34,269, or over 77 percent, is overdue by ninety days or more. However, these accounts have been reduced to $3,782 and $2,150 respectively in the past three months. The collection of deposits should be a high priority. The Port should collect any deposit due before a tenant occupies Port space, and such deposits should be collected as expeditiously as possible from tenants whose rent is increased.

The Port will continue to lose money from tenants who have delinquent accounts that are "covered" by inadequate deposit amounts. The Port Commission could improve its deposit policy by increasing deposits for tenants and by requiring deposits for accounts not previously covered such as electrical service, parking stall rentals, and miscellaneous services to tenants; such a policy would discourage tenant delinquency and provide the Port with additional protection.

Account Receivable Writeoffs

According to the Collection Manager, of the Port's $3.68 million in overdue accounts for rent, utilities and damage to Port facilities, 192 accounts, valued at approximately $2.36 million or 64 percent, are more than sixty days delinquent. As of 12/31/85, 63.2 percent of the Port's accounts receivable were past due by 90 days or more.

The following list of Port tenants is an example of the Port's delinquent accounts receivable. Each of these nine tenants have delinquent accounts to the Port in excess of $50,000 all of which all are over sixty days past due:

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* According to Port Policy statement number 6, a write off is money to be deducted from the Accounts Receivables because this money owed to the Port is either "uncollectable" or "not cost effective to pursue".

S. F. Port Delinquent Accounts Greater Than $50,000
Overdue by 60 Days or More as of March, 1986

Customer	Total Balance Due	Past 60 Days
California Close Corp.	$ 728,494	$703,001*
Coastline Associates	83,490	79,861
Delta Steamship Lines Inc.	91,733	85,726
Dispatch Transportation	80,234	76,736
Fritz Maritime	125,501	124,610
Marine Terminals Company	54,489	52,513
Postermat Friedman Enter.	111,918	102,458
Roundhouse Investors	348,845	237,657**
Sailing Ship Dolphin P. R.	162,525	149,211
Total	$1,787,229	$1,611,773

* According to the Port, California Close Corp has recently declared bankruptcy.

** Board of Supervisors action to allow the deferment of rent based on the Port's representation that, otherwise, the project would fail.

As previously stated, the Port has a potential write off of accounts receivable, according to rates established by the Port's outside auditors, of as much as $1,428,000 of the current $3,684,129 balance of accounts receivable or approximately 39%.

The Port has had problems with settlements from non-tenants who damage Port property. The Port often agrees to accept an amount less than the actual cost of repairing the damage because of application of the Port's write off policy, applying a depreciation factor, and/or inaccurate estimates of damage by staff. Typically a facilities damage report describing damage to maritime facilities is made by the Wharfinger or Maintenance Departments. The Port's staff estimate cost of the damage and the bill for this amount is then sent to the shipping company for payment, while the Port repairs the damage. The shipping line may sometimes question the estimated amount and the Port negotiates a settlement with the company. A major factor can be the application of a depreciation allowance of up to 50 percent in some instances. Writeoffs from these settlements were $136,892 or 48.8 percent less than the estimated cost to repair damage to the Port's facilities in 1985 which amounts to $280,544. The $136,892 does not include any service and penalty charges which were also written off.

Besides writeoffs, the Port also adjusts many accounts downward, often by large amounts. These downward adjustments are similar to writeoffs and they should be subject to the same provisions as the Port's write off policy.

The aging summary reports that the Accounting Department staff uses for delinquent revenues lists accounts and dollar amounts in arrears by current, (0 to 29 days past due), 30 days (30 to 59 days past due), 60 days (60 to 90 days past due) and 90 days (more than 90 days past due). These reports can be misleading because once an account becomes overdue by ninety days, it is aggregated with all other accounts that are overdue by at least ninety days. This report could be made more informative if two additional time periods were used - 180 days (180 days to 364 days past due) and one year (more than one year past due). This progression of time for overdue accounts permits better analysis of the status of overdue accounts.

The Port does not participate in the delinquent revenue collection program administered by the Bureau of Delinquent Revenue Collection of the Tax Collectors Office (Administrative Code Sections 10.37 to 10.42) because Administrative Code Sections 10.38 and 10.41 specifically requires the Port to collect its own delinquent revenues. According to a representative from the Tax Collector's Bureau of Delinquent Revenue Collections, each employee in the Bureau manages an estimated 1,000 cases per year, while the two Port staff assigned to delinquent collections manage an estimated 350 accounts per year that are delinquent by sixty days or more. The cases managed by the Bureau of Delinquent Revenues generally involve individuals whereas those managed by the Port generally involve companies. The Port also does not use the services of a privately owned collection bureau. These private firms generally charge up to fifty percent of revenues collected for their services. The Port should explore the use of these services as an alternative to completely writing off some of its accounts.

The Accounting Department could improve the collection process in other ways. First, billing notices for rent could be mailed to tenants at least ten days before they are due for collection, rather than on the first of the month as is currently the case. This would give the Port's tenants additional notice. Second, by the tenth day after the payment for any Port charge is due, the Port's staff could generate notices to tenants reminding them that their account is overdue by ten days. Finally, the Port could use collection policies and procedures developed by collection agencies. The Fiscal Officer states that his staff is developing a detailed collection procedure. We recommend that staff also consider using procedures already in place at existing collection agencies.

Procedure Manual

Port staff does not have a thorough understanding of its authority for using available collection methods. The staff admits to not knowing the basis for many of its actions, some of which are inconsistent with Port and/or legal requirements. For example, Accounting Department staff has added service charges to delinquent accounts although the staff did not have written authority for such service charges. (The Fiscal Officer states that he has just received a written opinion from the City Attorney on this matter). To eliminate any possible confusion, all future agreements should state that the Port will add penalties, interest and service charges to delinquent accounts as appropriate. In another example, clients are charged $10.00 for checks returned to the Port because of insufficient funds since the City's Administrative Code allows for a penalty of that amount. The Port does not follow the Administrative Code, because it retains the money instead of allocating it to the City's General Fund, as per the Code. We recommend that the Administrative Code be amended so that the Port could unqualifiedly retain monies it collects for the insufficient funds account.

The Accounting Department follows Port policy concerning when and under what circumstances staff should write off bad debts but often leaves delinquent accounts on the Port's books for many years (the majority of these accounts are in litigation). The major criteria for writeoffs are those delinquencies which are "uncollectable" or "not cost effective to pursue." Some delinquencies are sent to the City Attorney's Office for legal remedy. Presently, this Office has 33 active cases of which 23 now have suits filed against the delinquent tenant. In 1985, the City Attorney's Office settled seventeen cases, and collected $264,577. Other delinquent accounts have been carried for seven years with little hope of collecting these revenues in total. The Accounting Department is recommending writing off many of these accounts.

The Port's Fiscal Officer has developed policies which have been approved by the Executive Director for collecting delinquent revenues. However, improvements could be made as follows:

- The proposed policy statement generally does not cite the authority (State Law, City Charter Section, Port Resolution, etc.) to carry out the policies described. An employee who would use this document would not know the legal basis for taking many actions.

- The proposed policy does not clearly state what the employee is to do under many of the probable conditions that would be encountered. Thus an employee could possibly take incorrect action because there are no specific instructions available.

- There are many specific items of concern to both the Budget Analyst and the Internal Audits Division of the Controller's Office regarding the proposed policy. These concerns have been voiced to the Accounting Department and the policy has been amended in accordance with some of the recommendations.

- The policy for writeoffs should clearly relate to downward adjustments of billings as well as writeoffs of delinquent billings.

We encourage the Accounting Division to continue developing policies and procedures to include all department functions, and to include the laws, rules, regulations, Port Commission actions and other appropriate authority to take action. These procedures should be developed in a timely manner. A complete procedures manual would facilitate good staff operation and could increase Port revenues.

CONCLUSION

While, the Accounting Department has improved the accounts receivable process and collections and is continuing this effort by proposing new procedures, collection practices are not as aggressive as they could be, deposits are insufficient, the number of bad debts is excessive and the Port's collections policy still needs additional clarification.

RECOMMENDATIONS

We recommend that the Finance and Administration Division:

- Send tenants a rental notice ten days before the monthly rent is due.

- Develop and install new collection procedures, citing authority for actions, and including amending the write off policy to include downward adjustment of accounts.

- Increase tenant deposits;

- Develop a comprehensive procedures manual which addresses all such collection issues and details the circumstances and authority under which any actions can be taken; and

- Develop a program to improve the collection of facility damage claims in order to determine the proper amount due to the Port, in conjunction with the Wharfinger's Department.

SAVINGS/BENEFITS

The Port will benefit by improved collections and fewer bad debts. Estimated increased revenues to the Port, including increased interest income, will amount to at least $40,000 annually.

SECTION II

MARITIME ISSUES

SECTION II.1: CAPITAL PROJECT PLANNING

THE PORT IS COMMITTING MILLIONS OF DOLLARS IN BOND FUNDS AND OTHER FUNDS TO MODERNIZE CARGO HANDLING FACILITIES IN THE HOPES OF CAPTURING MORE CONTAINER SHIPPING BUSINESS. THE PORT HAS ORDERED TWO NEW CRANES AND IS ACQUIRING ONE USED CRANE AT A COST OF $6.9 MILLION. ADDITIONALLY, THE PORT PROPOSES TO REBUILD ONE OF ITS OWN CRANES AT A COST OF $1 MILLION EVEN THOUGH THE USE OF THE PORT'S CRANES IS FAR BELOW THE INDUSTRY AVERAGE. IN FACT, TO INCREASE THE PORT'S PRESENT CRANE USAGE TO THE INDUSTRY AVERAGE, THE PORT WOULD HAVE TO INCREASE THE ANNUAL NUMBER OF CONTAINERS MOVED BY 227 PERCENT FROM AN AVERAGE OF 15,303 CONTAINERS TO AN AVERAGE OF 50,000 CONTAINERS FOR EACH OF ITS SEVEN EXISTING CRANES WHICH ARE NOW USED LESS THAN FIVE PERCENT OF THEIR AVAILABLE TIME. CLEARLY, BY ADDING THREE CRANES FOR A TOTAL OF 10 CRANES, THE PORT'S CONTAINER HANDLING CAPACITY WILL FAR EXCEED ANY CARGO PROJECTIONS WELL INTO THE NEXT DECADE. THEREFORE, THE PORT SHOULD DEFER THE PROPOSED $1 MILLION REBUILDING OF ITS CRANE AND DEFER AN ADDITIONAL ESTIMATED $4 MILLION FOR OTHER CARGO HANDLING IMPROVEMENTS. THIS TOTAL OF $5 MILLION SHOULD BE PRODUCTIVELY USED FOR THE DEVELOPMENT OF SEVERAL COMMERCIAL REVENUE PRODUCING CAPITAL PROJECTS ON PORT PROPERTY.

Historical Background

Until the mid-1960s, most materials were shipped on "break-bulk" ships--merchant ships on which commodities were carried in bags or on pallets. After 1965, a number of dramatic changes were made in the shipping industry. The first was the development of cargo containers--sealed steel boxes twenty or forty feet long, eight feet wide and eight feet high. This development improved packing, security and handling of goods and delayed their spoilage. Special railroad cars were developed to handle the new containers and a new type of cargo crane was developed to load and unload containers from ships that reduced the number of stevedores required for cargo handling. In addition, the development of very large container ships, supertankers and barges has lowered the cost of shipping because the ratio of expenses to the amount of cargo being shipped has been reduced.

Computers and telecommunications equipment also have begun to be used to track the location of containers, ships, railcars and cranes, monitor loading and off loading times and to aid navigation. These technological developments have served to reduce shipping time from source to ultimate destination. Each of these developments have improved efficiency, reduced shipping expenses and created intense competition among ports to move cargo in the shortest amount of time to its ultimate destination.

Capital Spending

The Port of San Francisco did not make a major effort to install the equipment required to handle containers until the late 1970s. The Port's Piers 80 and 94/96 were developed to transfer containers directly to and from ships. The Port is continuing to make improvements in its container handling facilities financed by more than $31 million, or 73%, of a $42.5 million Port revenue bond issue approved by San Francisco voters in November, 1984. These funds are proposed for maritime shipping improvements such as pier modifications, enhanced truck access, additional cranes, more convenient railroad facilities and more lighting. The Maritime Affairs Division states that these improvements are needed to capture the deep draft (ship), intermodal market. The $11.5 million remainder of the $42.5 million bond issue was allocated to two projects in Fisherman's Wharf ($4 million) and bond reserve and expense accounts ($7.5 million).

Despite the substantial financial commitment the Port is making to maritime activities, the criteria used by the Port for choosing to make maritime rather than non-maritime capital improvements and for timing the implementation of maritime shipping improvements are unclear. There are a number of indications that the Port does not have a rigorous method of evaluating the best time for making capital improvements to maritime facilities, as shown below.

Additional Crane Purchases

Although the numbers of ships and containers coming to the Port of San Francisco has steadily grown, the Port currently has considerable excess capacity. For example, the industry wide average for container movements per crane per year is about 50,000 twenty foot equivalent container units (TEU). In Fiscal Year 1984-85, the Port's seven container cranes moved an average of 15,303 TEUs each or 30.6 percent of the industry standard. On Pier 80, specifically, the three existing cranes moved an average of 16,806 TEU per crane, or less than 34 percent of the industry standards. Nevertheless, the Port is purchasing two new cranes ($5.4 million) and one used crane ($1.5 million) to be installed on Pier 80, for a total cost of $6.9 million. The two new cranes were to be installed on the south face of Pier 80 to service the Lykes Brothers Steamship Company (Lykes Lines) and the used crane would be installed in the east face of the pier. An existing crane would be rebuilt at a cost to the Port of $1 million and moved to Pier 94/96. The Port had expected a dramatic increase in the level of shipping from the Lykes Lines from about 38,000 TEU in 1985 to 117,000 TEU by 1988, based on data furnished by Lykes Lines.* The two new cranes would then transfer an estimated 58,500 TEU each in that year, or seventeen percent more than the industry average. Assuming that the Lykes data was reasonable, the expenditure of $5.4 million for two new cranes would appear to have been justified for operational reasons** even though the Port's cranes would be used less than the industry standard. Lykes Lines recently announced that it would be withdrawing its ships from the Pacific Ocean region including the Port of San Francisco. It is uncertain whether other shipping lines that are present tenants of

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* Data for the increase in traffic by the Lykes Lines and other shipping lines and the proposed size and orientation of cranes at Pier 80 were furnished by the Port from the Environmental Impact Report for San Francisco Container Terminal Modernization (Pier 80) and a draft copy of the Port's consultant report for the same project (January 1986 draft).

**Two cranes are required to unload each of the new large ships.

the Port will handle the cargo which Lykes Lines had carried. By having the two additional cranes, the Port would have the capacity to serve other shipping lines which may pick up Lykes Lines Pacific Ocean cargo to San Francisco.

The Port has not offered sufficient justification for purchasing the used crane rather than using these funds for non-maritime capital projects. Projections for 1988 call for only 22,000 TEU to be handled on the portion of Pier 80 not supported by the new cranes or a total of 7,333 TEU per crane for the three existing cranes*** and the purchase of the used crane and rebuilding of an existing crane are not proposed in the Port's current EIR and draft plans for Pier 80.

There is little support for rebuilding an existing crane which is to be relocated from Pier 80 to Pier 94/96 at a cost of $1 million. The Port's four cranes at Pier 94/96 moved 56,704 TEU in 1985, an average of only 14,176 TEU per crane. The Port's Maritime Affairs Division staff concede that they cannot justify the rebuilding of an existing crane based on current use, but assert that their projections of future activity justify this work although they cannot quantify this increase. In fact, to increase the Port's crane usage to the industry average of 50,000 TEU each, based on the Port's seven existing cranes, the Port would have to increase the number of containers by 227 percent from 15,303 to 50,000 TEU per crane which does not appear to be feasible in the near future. In addition, Port staff reports that its existing seven cranes are used less than five percent of the time that they are available for use and ships presently do not have to wait to transfer cargo containers. Therefore, the Port cannot justify the rebuilding of an existing crane based on too many ships being in the Port at the same time, which could diminish service to the ships because of the unavailability of cranes. Despite underutilization of the present cranes, the Port has committed itself to purchasing the three additional cranes and to rebuild an existing crane.

Further, the Port has not established its own standard for evaluating when capital projects at maritime facilities are necessary. The Port should develop benchmark standards which would signal when capital improvements such as a crane purchase should be made. These standards should be set in consideration of industry averages, but need not match them exactly.

ICTF and Tunnel Modifications

The Port is also constructing an Intermodal Container Transfer Facility (ICTF) near Piers 94/96 to move containers directly to and from railcars and ships, eliminating the intermediate steps of unloading and storing the containers and then later loading the container onto a railcar. This project is on schedule and the ICTF is expected to become operational in November 1986. However, in order to make the ICTF function to most efficiently, modifications must be made to two tunnels on the Southern Pacific main railroad route between San Francisco and San Jose to allow the taller "Double Stack" cars**** to pass through these tunnels. There are two alternatives being considered at this time, lowering the tunnel floors to create more distance from floor to tunnel roof or building an extra track down the middle of the tunnel (gauntlet track) so that the cars go

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*** Ibid.

**** Double Stack cars are special cars that allow containers to be stacked on each other two high, reducing the tare weight relative to the weight of the goods being shipped. They are considered excess height cars.

through the tunnel where the clearance is the greatest. The gauntlet track would take about three months to construct. Lowering the tunnel floor would require about six months. In a recent article of the American Shipper magazine*****, the Port's Maritime Director predicted that both the ICTF and tunnel modifications would be on line in November, 1986. However, this prediction has been revised because the expected approval of the merger between the Southern Pacific Railroad and the Santa Fe Railroad has taken longer than expected. The projected date for the completion of tunnel modifications has been set back by six months.

The merger between the Southern Pacific Railroad and the Santa Fe Railroad has not been approved, and according to the Maritime Affairs Division, Southern Pacific Railroad has indicated that it is unwilling to make the required tunnel modifications until the merger with the Santa Fe Railroad has been approved. The completion of the tunnel modifications is important to the goal of the Port to provide full intermodal services to shippers. Without the completion of this project, double stack cars cannot be used at the ICTF. In addition, at this time, only preliminary plans for the tunnel modifications have been prepared; much more time for final planning, construction estimates and ordering equipment would still be required. No decision has been made at this time.

When the $42.5 million bond issue for Port improvements was approved by the voters in 1984, $6.4 million of the bond issue was allocated to Pier 96 for various capital improvement projects. Among the projects was the modification of two tunnels on the Southern Pacific Railroad mainline. The Port's consulting firm for the project made a report to the Port in February, 1984, estimating the cost of this project to be from $3.3 million to $4.0 million. The Port's Maritime Affairs Division now states that they are negotiating with a management team that can represent the proposed merged railroad's interests with the objective of having the merged railroad make the tunnel modification at its own cost and that the $4.0 million in Port monies previously allocated to the tunnel modification be used elsewhere.

Outlook for the Future

The forty percent increase in Port container facility use necessary to maintain the current TEU per crane (including the two new cranes, and the one additional used crane) can be attained if the increases its container movements occur as projected and will be shipped by existing or future tenants of the Port. However, a large increase to the industry average is somewhat questionable at this time. Forecasts for container shipping by present shipping lines (other than the Lykes Lines which has announced plans to discontinue San Francisco operations) using the Port show small increases. The Port has not projected how many more shipping lines/containers are expected and has not projected any timetable for this increase in traffic. Most analysts agree that there is currently a worldwide surplus in ship capacity which will continue for at least five more years when, at that time, cargoes may have increased and older ships scrapped, thereby narrowing the gap between ship capacity and available cargo. It is also uncertain how much of the cargo business will come to the Bay Area or to the Port of San Francisco. Even with a large annual growth, the Port's crane capacity with the addition of two new cranes and the one used crane will be sufficient for many years without a need to rebuild an existing crane.

***** American Shipper, January, 1986.

Alternative Improvements

In the absence of a demonstrated need for certain of the Port's modernization projects at the cargo handling facilities, the Port could consider allocating funds to other revenue-generating capital projects. Were the Port to defer the rebuilding of the existing crane for Pier 94/96 and reallocate monies originally planned for construction of tunnel modifications, $5.0 million could be reprogrammed into other projects, the revenue from which could be used as needed in the future for the shipping facility improvements. The Port Commission and the Board of Supervisors would have to approve any changes in the use of bond funding through a reappropriation ordinance consistent with the purposes for which the bonds were issued. In other sections of this report we have identified new revenue sources for the Port. In addition, the Port generates a surplus of approximately $5 million annually. There are many projects, such as the following, that could be funded by reprogramming some of the bond funds now dedicated to maritime uses and using non bond fund monies to develop revenue producing capital projects and keep existing facilities in good condition: (Note that such proposed reprogramming would still be in accordance with the original purposes of the bonds as voted by the electorate.)

- In the Appendix, we have identified many sites where commercial revenue producing capital projects could be developed.

- Many Port facilities need improvements in fire safety, substructure, electrical service, roofing, etc. to maintain safe and continued operation in the future. For example, a fire on Pier 1-1/2 in December 1985 could have been a major disaster had it not been detected by the Port's guard service. According to the Guard who detected the fire, a few more minutes would have meant the loss of Piers 1, 1-1/2 and 3. These facilities have no fire detection equipment and the Guard Service does not patrol the area all 24 hours per day. Similar problems exist at other Port facilities. (Section IV.2 regarding the fireboat described this issue of fire safety in more detail.)

- The Port proposes to build major fish processing facilities on the Hyde Street Pier and other fishing facilities in the Fisherman's Wharf area. At this time, funding for these projects has not been identified. Capital project funding could be reallocated for this purpose. In addition, the Wharf area in general needs some long term maintenance and capital improvements.

- Needed maintenance and capital projects at the Ferry Building Complex have been deferred, since they were to be completed as part of the 1980 agreement with a private developer to refurbish the Complex. For example, the World Trade Club decided in 1980 that it would not be cost effective to modify its electric service and purchase power directly from Pacific Gas and Electric (the World Trade Club still purchases power from the Port) since the service was to be modified as part of the refurbishing of the Ferry Building Complex. However, the Port recently terminated the 1980 agreement and is beginning to make improvements to the Complex. For instance, the Port is now repairing sewers lines at the Ferry Building at a cost of $135,000 and has identified the need for roof and electrical repairs. In addition, the Port reported to the Board of Supervisors in July, 1985 that it estimates annual losses of greater than $500,000 in rental income annually because the Ferry Building has not been rebuilt. Capital project funding dedicated to projects with unsubstantiated need could be used instead for projects at the Complex.

- In a report concerning the City's infrastructure issued in November, 1985, the Chief Administrative Officer estimated that the Port's facilities have a value of $1.0 billion, require annual maintenance of $8.3 million and requires $200 million in capital spending ($20 million per year for ten years). No plans have been developed for this capital spending program.

- The Port does not have a regular schedule of building inspections for its facilities which would identify problems requiring major capital spending. Such an inspection process could be developed by staff to identify Port capital needs.

The Port does not have a comprehensive plan to upgrade and improve its facilities used for non-shipping uses. Such a plan, including a timetable for implementation, is needed to insure that the Port's facilities can continue to be safe, modern and marketable.

CONCLUSIONS

The Port has an ambitious program to modernize its cargo-handling shipping facilities in the hopes of capturing increased container shipping traffic but has not been as ambitious in developing its commercial properties which are needed to produce revenue. The Port has plans to spend another $1 million to rebuild an existing crane and has reallocated $4 million originally planned for tunnel modifications to be expended for more cargo handling improvements. The spending of this money is not required at this time and should be deferred. This $5.0 million plus new revenues identified in this report could be used to support other revenue-producing Port capital projects.

RECOMMENDATION

We recommend that the Port defer the proposed $1 million expenditure to rebuild its own crane and to defer approximately $4 million reallocated for other cargo handling improvements and instead reprogram these bond fund monies, in accordance with the original purposes of the bonds, for other needed Port revenue-generating capital improvement projects which would protect the interests of the bond holders.

SAVINGS/BENEFIT

The Port would benefit from needed capital improvements to existing facilities while deferring expenditures for new facilities that are unnecessary at this time.

SECTION II.2: AUDITS OF SHIPPING LINES AND TERMINAL OPERATORS

ALTHOUGH THE PORT WHARFINGERS CONDUCT AUDITS TO VERIFY WHARFAGE STATEMENTS, THEY DO NOT REVIEW EITHER THE PORT'S BILLINGS AND LEASE AGREEMENTS OR THE SHIPPING LINES' AND TERMINAL OPERATORS' PAYMENT AND RELATED ACCOUNTING RECORDS. AS A RESULT, THE PORT HAS INSUFFICIENT DATA TO DETERMINE WHETHER IT IS RECEIVING THE CORRECT AMOUNT OF REVENUES WHICH IT IS OWED FROM THE SHIPPING LINES AND TERMINAL OPERATORS.

The Port has developed revenue sharing agreements with shipping lines which include provisions that return an increasing proportion of the rent charged by the Port to the shipping line as the number of containers brought to the Port by the shipping line increases. Seventeen shipping lines now have such agreements valued at $5.296 million. The Port also has agreements with shippers that do not involve revenue sharing for a total of $2.493 million.

The Accounting Department of the Finance and Administration Division is responsible for maintaining the accounting records of cargo movements and revenue collection. However, shipping line and terminal operator payments are not audited by the Finance and Administration Division or the Port's outside financial auditors.

Among their duties, the Wharfingers are responsible for monitoring the physical loading and unloading of cargo between ships and piers. They keep records of loading and unloading, wharfage, dockage, and demurrage using information provided by the ship's manifest. The Wharfingers are also responsible for auditing these records to determine the accuracy of the shipping lines' wharfage statements and for comparing them to the records kept by the stevedore companies for consistency.

The Port's Chief Wharfinger reports that his staff had planned to audit wharfage statements of ten shipping accounts this year. (According to the Fiscal Year 1985-86 budget, the goal was 15 audits.) To date, however, the Wharfingers have only been able to audit three accounts because of workload requirements and the absence of one Wharfinger due to illness. In these audits, the Wharfinger's staff did find errors that increased the Port's revenue by small amounts.

The audits conducted by the Wharfingers are not considered financial audits in that they do not include reviews of the Port's lease agreements and billings or the shipping lines and terminal operators' payments to the Port and related accounting records. The current lack of financial auditing means that the Port cannot be sure that it is receiving the correct revenue from shipping lines and terminal operators. Financial audits performed under the supervision of the Controller's Internal Audit Division could verify the accuracy of billings and actual revenue collection in addition to the accuracy of the wharfage statements.

The Port of Oakland has had an internal auditing staff in its Finance and Administration Division since 1979, consisting of four employees who concentrate their efforts on shipping lines and terminal operators, although they also audit commercial percentage of gross receipts contracts throughout the Port of Oakland. These rigorous audits have discovered millions of dollars of revenue for the Port of Oakland and they are

considered to be an integral, valuable Port function. In 1982 alone, the Port of Oakland's audits of all contracts uncovered over $550,000 in unpaid revenues, approximately $391,000 of which were due from shipping contracts. These unpaid revenues constituted approximately 1.6% of the Port of Oakland's total shipping revenues for 1981-82. Audits of revenue sharing agreements continue to uncover significant amounts of unpaid revenues for the Port of Oakland. For fiscal year 1985-86, audits have revealed that the Port of Oakland should have received an additional $134,544 in revenues through January 1986, or approximately $270,000 on an annual basis. The cost of these audits, averaging between $175,000 and $200,000 annually, is significantly less than the unpaid revenues they have discovered.

The Port of San Francisco does audit the 74 commercial tenants that pay revenues on a gross receipts basis by a contract with an outside auditing firm at a cost this year of $25,000 for auditing 25 of these tenants. As part of their rental agreement with the Port, each of these tenants is audited every three years and some are audited more frequently. These audits have discovered errors, corrected mistakes in tenant rents and made Port tenants aware that they would be regularly audited, thereby encouraging tenants to comply with the agreement and maintain detailed records. The Port of San Francisco could be assured that it was receiving revenues due to it from shippers by similarly auditing its shipping contracts. If the San Francisco Port were able to uncover unpaid revenues of the same proportion to its total shipping revenues as the Port of Oakland did in 1981-82, it would receive an additional $83,000 per year in revenues.

The recommendations of the City's Task Force on audits (Advisory Committee on Audits and Agreements) should be followed such that all audits would be centralized under the Controller's Office and the Controller would establish audit guidelines.

CONCLUSION

Full audits of the payments made by shipping lines and terminal operators, including reviews of the Port's lease agreements and billings and the shipping lines' and terminal operators' payments to the Port and related accounting records, are not performed by the Port. As a result, the Port does not know if it is receiving accurate payments from shipping lines and terminal operators.

RECOMMENDATIONS

The Port should comply with the recommendations of the City's Advisory Committee on Audits and Agreements by having full audits conducted of shipping lines' and terminal operators' payments. These audits should include both a review of the Port's lease agreements and billings and a review of the shipping lines' and terminal operators' payments to the Port and related accounting records.

SAVINGS/BENEFITS

The Port would benefit from regular audits of the records of shipping lines and terminal operators through possible increased revenues resulting from such audits.

SECTION III

COMMERCIAL PROPERTY

SECTION III.1: DURATION OF LEASES VERSUS LICENSES

IN LIEU OF AWARDING LEASES, WHICH IN SOME INSTANCES REQUIRE THE USE OF COMPETITIVE BIDDING UNDER THE PORT'S PROCEDURES, THE PORT HAS CHOSEN TO AWARD 415 LICENSES TO CERTAIN TENANTS. WHILE THESE LICENSES CAN BE TERMINATED BY EITHER THE PORT OR THE TENANT UPON 30 DAYS WRITTEN NOTICE, IN FACT THE PORT HAS PERMITTED NUMEROUS LICENSES TO REMAIN IN EFFECT FOR YEARS. THESE LICENSES ARE PRESUMED TO HAVE BEEN RENEWED EVERY 30 DAYS IF NEITHER THE PORT NOR ITS TENANTS TAKE ANY ACTION TO TERMINATE THE LICENSES. SINCE THESE LICENSES, IN CONTRAST TO LEASES, ARE AWARDED BY THE PORT WITHOUT UTILIZING ANY COMPETITIVE BIDDING PROCEDURES, THE PORT CANNOT BE ASSURED THAT IT HAS MAXIMIZED ITS REVENUES FROM THESE TENANTS.

When the property at the Port of San Francisco was transferred in trust from the State of California to the City of San Francisco in 1969, many of the Port's facilities were already occupied by tenants who had license agreements with the State. One of the Port's first tasks was to develop new agreements between these tenants and the Port. This effort resulted in a number of long-term leases for tenants in the Fishermans Wharf Zone and thirty-day licenses for a wide variety of Port facilities in all areas of the Port.

As time passed, more leases and licenses were approved, some tenants with leases received additional space through a second lease and/or additional license(s), and licenses were transferred from tenants to their successors. Other changes affecting Port tenants include the development of new facilities by the Port and developers selected by the Port. Various governing bodies have approved changes to laws and regulations. The Port now has a significant variety of agreements for the use of Port facilities, resulting in a heavy administrative workload for the Commercial Property Department staff. The major Port staff currently manages approximately 532 leases, compared to fewer than 300 major leases managed by all other San Francisco City departments combined.

Long-Term Leases

The Port approved leases with a number of tenants in 1970 for a sixty-six year duration and with other tenants in 1975 for a sixty-one year term. Currently, of the 117 leases managed by the Commercial Property Department, 19, or 16.2 percent, are for either sixty-one or sixty-six year terms. None of these leases expire until the year 2036, fifty years from now. As a result, the Port has effectively lost control over the use of a significant amount of its property until the year 2036, when all of these leases can be renegotiated or terminated.* In the meantime, the Port does not have the option of converting these properties to more profitable or more desirable uses. In the future, the

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* If a lessee is grossly negligent or wishes to amend their lease, the Port does have the opportunity to renegotiate the lease at an earlier date.

Port could generally limit its leases to generally ten years.** The Commercial Property Department staff would then be able to evaluate alternative potential uses for each facility before the lease period is completed in order to determine whether continuing the lease would promote the best use of each facility. Staff could prepare a report for the Port Commission that would include recommendations for the use of the facility after the existing lease expired.

Short-Time Licenses

The Port's 415 licenses can be terminated by either the Port or the tenant upon thirty days written notice. However, licenses are presumed to be renewed every thirty days if neither party takes action to end them. Many licensees have occupied their present locations for numerous years effectively precluding other potential tenants from using the space. As just one example, sixty current licenses have been in effect since 1978 or before.

The following represents examples of tenants which have been operating on Port premises, under a 30-day license, since 1976 or before:

Name of Tenant	Year License Issued
Granex Corp.	1969
Pacific Bell	1969
Spolter, McDonald & Mannion	1975
Woods, Jack and Associates	1975
Marine Exchange	1975
John Stanley Horn, Co.	1976
Exposition Fish Grotto	1976
Christy Truck Lines	1976
P. J. Rhodes & Co.	1976
Mobil Oil Corp.	1976
U. S. Department of Interior	1976

The following represents examples of tenants operating on Port premises, under a 30-day license, which has been awarded in the past six months:

Western Rim Company
Exploration Cruises
Landor Associates
Pacific Far East Lines
Valley Engineers, Inc.
Walter Allen Construction
Southwest Marine of S. F.
Hornblower Yachts, Inc.
Pier 45 North Beach Star

At least nine of the 415 tenants who have only a thirty day license pay rents of over $100,000 per year each for space that could be vacated upon thirty days written notice. These nine licensees include:

** The major exception to this restriction would be development contracts, which could be let for longer in order to allow completion and amortization of development projects.

Metropolitan Parking Corp.
Landor Associates (Two Licenses)
Hornblower Yachts (Three Licenses)
Service Engineering (Three Licenses)
California State Department of Corrections (Four Licenses)
Fisherman's Wharf Restaurant (Two Licenses)
Burger, Helen
H & H Ship Service Co.
Esprit Corp.

The practice of granting thirty-day licenses by the Port has resulted in not putting certain land and facilities out to competitive bid. Further, such licenses are not subject to approval from the Board of Supervisors even though they may remain in effect for over ten years or result in revenues of over $1 million to the Port.

The Port must carefully evaluate decisions to pay for site improvements for "long-term" licensed facilities because the tenant might leave before the Port has collected sufficient rent to pay for these improvements. Facilities that have been let under license for many years have thus remained unimproved. Similarly, even though the Port may offer a tenant rent credits for tenant financed improvements to Port property, tenants are reluctant to accept this offer because the are not assured that they will be allowed to remain at the site long enough to amortize the cost of the improvements. As a result, the Port has had significant difficulty attracting and retaining office tenants. There are high vacancy rates in Port office facilities because many tenants have recently left the Port. Port staff concur that available Port office facilities are difficult to rent and often remain vacant longer than would be necessary if short term leases, rather than 30 day licenses, were offered to tenants. High vacancy rates result in lost revenues and an increased workload for staff in the Finance and Administration Division who must interview potential tenants, verify credit stability, establish new tenant accounts and maintain tenant files.

Rental of office space in the Ferry Building Complex exemplifies the difficulties which thirty-day licenses present for the Port. In 1980, the Port approved an agreement with a private firm to rebuild the Ferry Building Complex. The firm did not produce appropriate plans and could not obtain the necessary permits required by regulatory bodies and, after many extensions to the original agreement, the Port canceled the agreement in December, 1985. The Port filed suit to ask the Court to determine that the Port's action was proper. The company has cross-complained against the Port and, as yet, the matter has not been heard in court. Because of the ongoing instability of the Ferry Building renovation project, the Commercial Property Department until recently has only been willing to offer thirty-day licenses to potential tenants, in the belief that a lease would further complicate the proposed renovation project. Potential tenants do not know if and when renovations will occur, or how much notice to vacate they will receive. The expected result for Port staff has been difficulty in renting the available space; office space in the Ferry Building is currently twenty-five percent vacant.***

*** It is important that the problems of the reconstruction of the Ferry Building Complex be resolved as expeditiously as possible so that the deterioration of facilities will be ended, short-term maintenance, duplicative of planned project work, will not be done and the Commercial Property Department staff can plan for long-term use of the facilities. Port staff should be prepared to offer a new proposal to potential developers as soon as the litigation is completed.

The Finance and Administration Division has estimated that more than $500,000 in annual revenues have been lost because of vacancies in the Ferry Building due to the license-only situation. The Ferry Building licensees could be given leases as long as five years with the following provisions: 1) if the agreement with the current developer is valid and in force, lease agreements with tenants could be terminated with thirty days notice; and 2) if the agreement with the current developer is ended, lease agreements with tenants could be terminated upon six months notice. These termination provisions should be sufficient given the long planning and development cycle of the Ferry Building Project. According to Port staff, they have already begun to offer similar short term leases to potential tenants.

The use of thirty-day licenses can also result in the Port not from maximizing its lease revenues because there is no competitive bidding in the award of these licenses and the term of the tenancy is indefinite. No guidelines, rules or regulations exist to aid staff for determining whether a license (or expired lease) should be continued or terminated. In general, licenses, which offer little security to either the Port or the tenant, could be granted for very short-term uses of sites or for uses that are mobile in nature, such as snack trucks. All other licenses could be converted to leases having terms from six months to five years.

Leases and Licenses on Maritime Facilities

The Port has six planning zones, described in the Introduction. Activities in each zone are dedicated to certain activities and other uses are allowed on a conditional basis, after approval by the City Planning Commission and BCDC. However, Port staff has interpreted existing regulations and the Burton Act to mean that no leases can be given to non-maritime uses in three zones dedicated primarily to maritime uses. The Port should be able to lease properties in designated maritime zones for non-maritime purposes as long as the lease does not constitute a change in the long-term use of the land or facility. We recommend that the Port request a written opinion from the City Attorney regarding the use of short-term leases for non-conforming use of maritime related property, or amend the planning/land use zones to allow these short term, non-conforming leases.

In order to use these areas for non-maritime purposes, Port staff has secured non-maritime tenants by issuing thirty-day licenses. Therefore, there are a number of tenants with non-conforming uses on maritime facilities, without the necessary conditional use permits from the Planning Commission. Nevertheless, these tenants will probably be able to remain where they are until a long-term maritime use is found for their space. In many cases, thirty-day rentals can cause the Port to accept lower than market rents for these facilities, because many tenants will not offer market rates without the security of a lease.

Our analysis did not involve a review of the designated long-term uses of any of the six planning zones be changed. Such analysis is beyond the scope of this audit. However, the present rental situation can be improved in the short term for both the Port and its tenants by permitting non-conforming use tenants to operate with short-term leases for up to five-years in duration, rather than under a license. We propose that all properties to be used by the same tenant for more than six months be let through leases and, in conformance with the February, 1986 report of the City's Advisory Committee on Agreements and Audits, that those valued at greater than $1,500 per month be let on a competitive basis. These proposed leases would have recapture provisions to allow the Port to reclaim the facility if it were needed for a conforming use before the end of the lease period. Provisions for the amortization of the cost of improvements would be included.

The new leases would not be automatically renewed after five years, but would be subject to the conditions and circumstances that exist upon the termination of the lease. For example, the Port may, at the time of the lease renewal, have a higher and better use for the land or facility. The six months to five year lease would have recapture provisions to allow the Port to reclaim land or facilities for conforming uses as called for in the regulations for that planning zone. If the tenant were to be evicted from the site or facility, the tenant would receive a refund of an appropriate amount of money for tenant-financed improvements that had not been amortized. The tenant would also be given adequate notice to move.

Lease-License Combinations

Many Port licenses are held by tenants who already have a lease, a license, or more than one lease or license for adjacent Port properties. The result is duplicative manual and computer files, extra work for staff, insecurity for both the Port and its tenants and possibly poor decision making based on inaccurate information. In one recent instance, a restaurant on Fishermans Wharf was awarded additional space via a thirty day license. Although the physical space of the new facility is being treated as a separate facility from the existing space, the cost of renting this additional space has been combined with the rent of the existing restaurant space. This has resulted in the Port's not having maximized its revenues. The Port raised the minimum rent of the restaurant to include the rent for the new space. For the last three months of 1985, during a period of slow sales, the Port received $7,243 from the minimum rent calculation. Had the Port billed this restaurant tenant for this new space separately, the Port would have received $7,699 through a combination of a percentage of gross receipts plus the flat rent for the new facility. If the Port had used this new request for space as a basis to negotiate an increase in the restaurant's rent to eight percent of food sales and ten percent of alcohol and all other sales (the Port's current rates (see Table I on page 47)) from the present 5%, 7% and 7%, we estimate that the Port would have received $8,451 in rent. The Port used the option that returned the least amount of rental income. It should be noted that once seasonal business increases, the restaurant will effectively obtain the use of this new facility rent free (gross receipts rent will exceed the current minimum rent). We recommend that the Port negotiate with this tenant for the use of this new space.

Throughout the Port, there are at least thirty-seven tenants who have a total of eighty-nine leases or licenses. Port staff are reluctant to amend existing leases to include additional licensed space because many of the leases will not expire for several years.

Numerous tenants are occupying Port premises under both leases and 30-day licenses. As previously noted, the licenses are simply rolled over forever unless the Port or the tenant wants the license to be terminated. Further, numerous tenants have been awarded more than one license.

For example, the following tenants have both leases and licenses or more than one license:

Castagnola's Restaurant
Cresci Bros., Inc.
Gelardi's Gift Shop
Guardinos
Harbor Carriers Inc.
Harbor Tours
Isis Imports Ltd.
Monterey Fish
Marine Reef
Patio Sandwich Shops
Polar Ice
Sabella and Latorre
Scoma's
Service Engineering Co.
Sinbad's
Woods, Jack and Associates

In the future, the Port should consider alternative arrangements in amending its leases and licenses and not grant additional space to tenants except under conditions that benefit the Port. It should negotiate with the present leaseholders when possible to merge the licensed space with the leased space with terms that are acceptable to both the Port and the tenant by opening up the lease for renegotiation. The tenant would receive the security of one long-term lease instead of many leases and/or licenses while the Port would reduce its workload and could increase its revenues. Port staff state that they cannot unilaterally renegotiate a lease. This is correct. However, to the extent possible, negotiations should take place. If these negotiations are unsuccessful, the Port should then consider alternative uses for the land or facility.

These problems with leases and licenses, combined with the added pressures of a poor office rental market, compliance problems, increased recordkeeping, and marketing requirements which we have described elsewhere, have resulted in a significant amount of additional work for staff. Resolving these lease and license problems would improve the operation of the Department.

CONCLUSIONS

The awarding of thirty day licenses is not consistent with normal City procedures for awarding leases. Because of the continuation of thirty day licenses, currently numbering 415, for various Port tenants, with no competitive bidding procedures used in the award of these licenses, the Port cannot be assured that it is maximizing its tenant revenues.

RECOMMENDATIONS

We recommend the following changes be made regarding Port leases and licenses:

- Except for temporary uses, eliminate licenses for the rental of Port land and facilities and instead award short-term leases with a term appropriate for the proposed use and facility, using the guidelines recommended by the City's Advisory Committee on Audits and Agreements. The leases should be awarded on the basis of competitive bidding procedures unless the Port can clearly demonstrate it is not practical to do so.

- Attempt the renegotiation of leases with tenants which hold both leases and licenses in order to combine the leases and licenses into one lease agreement. If such negotiations are unsuccessful, the Port should then consider alternative uses for the premises occupied through a license.

- Generally limit the term of leases for conforming uses to ten years. Require that Port staff evaluate alternative uses of each leased facility and make recommendations to the Port Commission as to the future use of the facility.

- With the assistance of the City Attorney's Office, develop and amend Port procedures as required to permit short-term leases for non-conforming uses of Port lands and facilities. These leases should include recapture provisions for the Port and rent credits for tenant financed improvements. A conditional use permit might be required from the Planning Commission for such a short term lease.

- Expedite the resolution of the problems with the renovation of the Ferry Building in order to avoid unnecessary duplicative maintenance costs and in order to prepare for the long-term use of the facility.

SAVINGS/BENEFIT

These improvements in the administration of leases and licenses could result in an amount of increased revenue to the Port which cannot be fairly estimated and would result in more stable rental arrangements between the Port and its tenants.

SECTION III.2: COMPLIANCE WITH LEASES AND LICENSES

AS A RESULT OF INCOMPLETE DATA CONTAINED IN THE PORT'S 117 LEASE AND 415 LICENSE FILES, THE PORT DOES NOT KNOW IF ITS TENANTS ARE IN FULL COMPLIANCE WITH ALL OF THE PROVISIONS OF THESE LEASES AND LICENSES. FOR EXAMPLE, IN THE PAST YEAR, THIRTY ADJUSTMENTS TO INCREASE RENT, WHICH WERE PROVIDED FOR UNDER THE LEASE AND LICENSE AGREEMENTS, WERE NOT MADE ON A TIMELY BASIS.

The Commercial Property Department of the Finance and Administration Division manages 117 leases and 415 licenses of Port property for a variety of commercial and other tenant uses. The terms of the leases range from one to sixty-six years, while licenses can be canceled with a 30-day notice. The Department maintains both a manual and a computer file for each of its tenants. The manual file contains copies of the lease or license, correspondence, work papers for amending rents and deposits and other information as appropriate. The Port's computer is also programmed with tenant information, including any special conditions of the lease or license.

The Port's dual filing systems--manual and computer--are needed because certain records such as correspondence, calculations made for rent and/or deposit changes and credit checks are not readily adaptable to computer filing. The abstract forms used for transferring manually generated information into the Port's computer are comprehensive but the computer-generated reports provide only summary information on each tenant's account. The manual lease and license files that were in force before the present staff managed the Port's files were incomplete and continue to be incomplete. The individual Port files lack documentation of tenant insurance coverage, Port Commission authorization for rent adjustments and the calculations on which adjustments have been based. In addition, there is little consistency in the types of information maintained in the files. As a result, staff cannot rely on finding important documents required to properly administer the Port's leases and licenses. These files, especially the manual files that record actions taken by the Port regarding the tenant, should be brought up to date as part of the improvement and use of the tickler system programs described on the next page.

The Port has reviewed and corrected its 117 lease records. The review has discovered many problems with the leases, including non-compliance and rent and deposit adjustments that were either not made at all or not made in a timely manner. The files are being brought up to date and are more complete than before the audit was begun. Staff was not required to file a report that would describe the problems that were discovered, the solutions proposed and actions taken. The staff has yet to review the 415 licenses that are presently active. A survey by the Budget Analyst of the records for these licenses discovered incomplete files which left the status of the license accounts unsubstantiated. Many files lacked the documentation to support actions taken by staff. Judging by the Department's experience with their review of the Port's leases, it may require several years to complete a review of all the licenses. In order to speed up this essential review, the Department requires an employee on a full-time basis to examine the licenses for accuracy and completeness. The Civil Service Commission staff recently recommendation approval by the Civil Service Commission of an 1842 Management Assistant on a full-time temporary basis to assist the full time staff with this review at an estimated cost of $23,000 for fiscal year 1986-87. During our exit conference with the Director of the Finance and Administration Division concerning this report, we were told that the Port will somehow find the resources to complete the

review of the Port's licenses before the end of June, 1986. Whenever the Port completes the review, this temporary position would not be needed.

It should be noted that the contents of the licenses files, that have become active since the current staff began to administer the Department's programs, are improved and the files are more complete compared to previous files. According to the City Attorney's Office, the current basic license document should be rewritten to bring it into compliance with current state and local laws, current practices, and other requirements. Developing a new license document could proceed concurrently with the review of all licenses. However, we have recommended in Section III.I the replacement of many of the licenses with leases and the renegotiation of leases having associated licenses. While it takes both the Port and its tenant to approve a renegotiated lease, in some instances, because of the tenant's request for additional space, such renegotiations are possible.

Tickler Systems

The leases and licenses managed by the Commercial Property Division often have special conditions which must be acted upon at specified times. Such conditions involve insurance requirements, adjustments to the minimum rent, adjustments to percentages of gross receipts, increases in deposits, timetables for capital improvements and termination of agreement dates. These lease and license conditions number in the thousands and are referenced in both the manual and computer files. These computer files could be used to provide the required data (what is to be done, when, percent or dollar change, etc.) by use of a tickler file (also called a reminder file) which would alert the Port when action on a particular lease needed to be taken.

The means by which staff can be reminded at the proper time to take certain action previously agreed to be taken is called a tickler. For example, a tickler file would be organized by date and the user would note on each day the action required that day. The Commercial Property Department has a tickler file, but the Port staff does not utilize this tickler system to take timely action required by the leasing or licensing of any of its other properties. The execution of the lease or license conditions generally depends upon the memory of the Assistant Property Managers. Port staff report that many lease and license conditions have either not been executed or are not executed in a timely manner. In the past year, the Commercial Property Department has retroactively made thirty upward adjustments to tenant accounts because the staff did not take timely action to apply appropriate CPI or other rent increases. Better utilization of a tickler system would allow Port staff to execute the conditions of the Port's leases and licenses in a timely manner.

The Port's compliance problems cross departmental lines. Many of the compliance problems concern construction, repairs and maintenance of Port facilities by Port tenants that require City Planning approval, building permits from the Port and the inspection of construction. For example, a number of tenants at Fishermans Wharf with long term leases were required to submit working drawings by 1980 to improve the Port facilities they lease but, according to the Port staff, the Port has incomplete records which would indicate that these improvements have been made and therefore, these Fishermans Wharf tenants may not be in compliance with their leases. This potential compliance problem was discovered during the review of the Port's lease files by staff. These tenants have been notified of the possible compliance problem but no other actions have taken place at this time.

Based on our discussions with the Executive Director concerning these findings, the Executive Director has directed his staff to begin improvement and use of tickler systems more effectively.

CONCLUSIONS

The Commercial Property Department maintains manual and computer filing systems and is just completed a review of the Ports' leases. However, the Department has not used the Port's computer to its fullest capability. Further, the Port's 415 active licenses have not been updated and the license document is not consistent with the legal requirements. As a result of incomplete file data, the Port does not know if tenants are in full compliance with all of the provisions of the Port's leases and licenses.

RECOMMENDATIONS

We recommend that the Port expedite the review and update of its 415 license files. We further recommend that Commercial Property Department staff work with the Data Processing Department staff to improve and use tickler files more effectively. We also recommend that the Commercial Property Department staff work with the City Attorney's Office to develop a license document that conforms with current law and current practices.

SAVINGS/BENEFITS

Better use of tickler files and the Port's computer capability by the Commercial Property Department would enable the Port to benefit from a better-managed Commercial Property Department with lease and license amendments being made on a timely basis with proper documentation.

SECTION III.3: LEASE ADJUSTMENTS FOR RESTAURANT TENANTS

UNDER THE EXISTING PROVISIONS OF THE PORT'S LEASES WITH SOME OF ITS RESTAURANT TENANTS, THE PORT IS ENTITLED TO ADJUST THESE TENANT RENTS BASED ON AMENDING THE PERCENTAGE OF GROSS RECEIPTS EVERY FIVE YEARS. HOWEVER, THE PORT HAS NOT ADJUSTED THESE LEASES FOR EITHER OF THE FIVE-YEAR PERIODS BEGINNING IN 1980 AND IN 1985. BY FAILING TO ADJUST TENANT RENTS IN 1985 AND 1980, THE PORT HAS LOST ESTIMATED REVENUES OF AT LEAST $675,000 FROM THEIR RESTAURANT TENANTS. INCREASING RENTS TO ITS RESTAURANT TENANTS, IN ACCORDANCE WITH THE PORT'S LEASE PROVISIONS, WOULD RESULT IN ESTIMATED INCREASED REVENUES TO THE PORT OF AT LEAST $380,000 ANNUALLY.

In 1975, the Port entered into leases with a number of restaurants in the Fishermans Wharf Zone for sixty-one years, until the year 2036.* The 1975 leases have clauses which permit adjustments to the rent. One clause permits a change in the minimum flat rental rate. This adjustment is calculated by applying the percentage change in the Consumer Price Index for the preceding five year period to the minimum flat rental rate. The Port staff has generally made these adjustments to restaurant leases in a timely manner.

Another clause permits a change in the percentage of gross receipts paid to the Port as part of the rental. Under the 1975 leases, the Fishermans Wharf restaurants agreed to pay the Port five percent of their revenue from food sales, seven percent of their revenues from alcoholic beverage sales and seven percent of all other revenues, less the minimum monthly base rent paid by the restaurant. If the minimum monthly rent is greater than the amount computed by the gross receipts method, the restaurant only pays the minimum rent.

Adjustments to these percentage of gross receipts rates may be made every five years based on a Port survey of the percentage of gross receipts paid by non-Port tenant restaurants in the vicinity. The Port can adjust the percentage of gross receipts paid by Port tenants based on change in the percentages being charged to these other restaurants. Unfortunately, consideration was not given to the strategic location of the Fishermans Wharf restaurants which gives them a significant advantage over other restaurants in the area but not on the Wharf. If the restaurant lease holder does not wish to pay the new rate, it may terminate the lease with the Port within the next six months, but must pay the Port the new rent until the lease is terminated.

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* Sixty-six years is the longest term permitted for Port leases by the Burton Act which transferred the Port lands to the City in Trust. See Section III.1 for a discussion and recommendation regarding lease terms. It appears that the term of these 1975 leases was set at sixty-one years in order that they would expire at the same time as the 66 year leases that began in 1970.

Although the Port had entered into twenty of its leases with restaurants by 1975, it has since entered into twenty-four additional restaurant leases with rents based on a percentage of gross receipts. As the demand for space on Port property has increased, the Port has been able to ask for higher minimum rents and percentages of gross receipts from restaurants. The increase in percentage of gross receipts is shown in Table I below:

Table I

Change in Percentage of Gross Receipts Paid to the Port

Year Lease Signed	Number of Restaurants	Range of Percentages of Gross Receipts: Food	Alcohol	All Other	Restaurant Parking
1970	12	5	6.5	6.5	65
1974	1	6	8	N/A	N/A
1975	7	5-7	7-8	7-10	N/A
1976	3	5-6	7-8	8-10	N/A
1977	3	6	8	10	N/A
1978	4b	6-8	8-10	10-12	N/A
1979	1b	8	10	10	N/A
1980	4b	8	10	10-12.5	N/A
1981	2	8	10	10	N/A
1982	1				
1983	2	10	10	10a	N/A
1984	1b	7	7	7	75
1984	3c	8c	10c	10c	N/A
Percentage increase 1970 to 1984 (5, 6.5, 6.5 to 8, 10, 10)	60	53.8	53.8	15.4	

a Modified Gross Receipts
b Includes some 30-Day Licenses
c Sixty six year Leases - S. F. Redevelopment Agency

The Commercial Property Department did not conduct a formal survey in 1980 as called for in these leases, but rather, it made an informal survey of some of the restaurants in the adjacent area and found that four of the eight restaurants surveyed paid their landlords a significantly higher percentage of gross receipts than that paid by the subject Port restaurants. This survey did not show changes experienced by restaurant tenants in the percentage of gross receipts as provided for in the leases. The survey only showed the prevailing percentage of gross receipts rates. Nor did the survey include many restaurants that could have been surveyed. Based on the Port's informal survey, the Department decided that Port tenants would be at a competitive disadvantage with other restaurants in the area if rents of the Port's restaurant tenants were increased. Therefore, the Department recommended to the Port Commission against increasing the percentage of gross receipts rent for these restaurants, and no action was taken.

However, as can be seen from Table I, the Port already had agreements with restaurants by 1980 wherein the restaurants were paying rent to the Port based on 8% of food receipts, 10% of revenues from alcoholic beverages and 10% of other sales in contrast to leases still in effect from 1975, wherein the lessees are paying 5 to 7% on food receipts, 7 to 8% on alcohol beverages and 7 to 10% on other sales. There have been no failures of restaurants which pay the higher percentage of gross receipts to the Port indicating that the current percentage of revenue charges by the Port are not excessive. A more rigorous survey of the adjacent restaurants may have found these higher rates also being paid by restaurants in the survey area that are not tenants of the Port. Since 1980, other restaurant leases could also have been increased to 8%, 8% and 10%. Based on Accounting Department data of actual rents paid by the Port restaurant lessees, if the gross receipts percentages for these leases were adjusted in 1980 (and subsequent to 1980 as restaurants leases became eligible for adjustment) to eight percent, ten percent and ten percent of food, alcohol, and other revenues, respectively, we estimate that the Port would have received an additional $390,000 in revenue.

For example, no increase in the percentage rents was made in 1985 for the following four restaurants:

Fish Alley Bar & Grill
Franceschi's
Pompei's
Scoma's

Although the leases of these four restaurants, which were awarded in 1974 and 1975, contain provisions for rent adjustments, the Port, to date, has never increased the rental rates payable by these restaurants.

While the Port reports that it did make a detailed survey in September and October of 1984, the rents for eligible restaurants were not adjusted at that time. In accordance with the provisions of the leases, the percentage of gross receipts received from these restaurant leases could have been adjusted in 1985 in addition to 1980 but they were not so adjusted. The Commercial Property Department did not make a survey in 1985 and, subsequently, has not surveyed nearby establishments. As a result, no adjustments to the percentage of gross receipts paid by these restaurants have been made. Using the same criteria of rents paid under recent leases of the Port's own restaurant tenants of eight percent, ten percent and ten percent, we estimate that the Port has lost revenue exceeding $285,000 between April, 1985 and December 1985 as a result of not making the survey of non-Port tenant restaurants. On an annualized basis, the Port is losing at least an estimated $380,000 per year by not having adjusted these rents. The Port can still conduct the survey, adjust rents as appropriate and collect delinquent rent. The Port should immediately conduct this survey with present staff. A survey of between twenty-five and fifty restaurants in the adjacent area would gather a sufficient amount of comparative data and could be easily carried out with existing Department staff.

CONCLUSION

Although the provisions of the Port's leases with restaurants entitle the Port to adjust rents in order to increase revenues, the Port has not made such adjustments to rents paid by certain restaurant lessees in either of the five-year periods beginning in 1980 and in 1985. As a result, Port has lost estimated revenues of at least $675,000.

RECOMMENDATIONS

We recommend that the Port conduct the survey provided for under its lease provisions in order to obtain increased rents from its restaurant tenants.

SAVINGS/BENEFIT

Adjusting the restaurant leases to current Port standards of 8%, 10% and 10% would result in increased rent to the Port of at least an estimated $380,000 annually.

Note: In response to our audit, the Port reports that it is currently conducting the survey as we recommend.

SECTION III.4: LEASING OF PORT FACILITIES

THE COMMERCIAL PROPERTY DEPARTMENT HAS NOT AGGRESSIVELY ATTEMPTED TO LEASE THE PORT'S COMMERCIAL, INDUSTRIAL AND OTHER SPACE. AS COMPARED TO A CITYWIDE VACANCY RATE OF APPROXIMATELY 13.4 PERCENT FOR OFFICE SPACE, THE PORT'S VACANCY RATE FOR OFFICE SPACE MANAGED BY PORT STAFF, IN CONTRAST TO THE PORT'S OFFICE SPACE MANAGED BY OUTSIDE DEVELOPERS, IS AN ESTIMATED 23.6 PERCENT. AS A RESULT OF VERY LIMITED MARKETING ATTEMPTS TO LEASE VACANT PORT FACILITIES, WE ESTIMATE THAT THE PORT HAS LOST AT LEAST $298,800 IN LEASE REVENUES DURING THE PAST YEAR FOR JUST TWO VACANT OFFICE BUILDINGS LOCATED AT PIER 27/29 AND AT PIER 94/96. BY DEVELOPING A SOUND MARKETING PLAN, WE ESTIMATE THAT THE PORT COULD INCREASE ITS PROPERTY RENTAL INCOME BY AT LEAST $375,828 ANNUALLY.

The Commercial Property Department of the Finance and Administration Division administers tenant leases and licenses, monthly parking space rentals, metered parking spaces, and electric service accounts. The Department also provides day-to-day services such as facility cleaning, repairs, and maintenance. It contracts for security services and it markets commercial properties for the Port. The Department employs a Property Manager, three Assistant Property Managers, two clerks, a secretary, a maintenance coordinator and parking meter staff.

Commercial Office Space

Until 1981, the Port believed that it had little need for a commercial marketing effort (see Glossary on page 69 for our definition of Marketing) There was then little competition for tenants. City vacancy rates were less than one percent and there was a shortage of office space in the City. The high demand for office space allowed for monthly rental rates from $2.00 to $2.50 or more per square foot in the downtown area, depending upon the location, term of the lease and the amenities of the property. During this period, the Port had a waiting list for office space and a large portion of the Port's industrial property was occupied.

Since 1981, many large office buildings have been completed in the downtown area adding millions of square feet of office space to the existing stock. With the increase in available office space over the past five years, downtown office space vacancy rates have increased to 13.4 percent as of December 31, 1985 according to Coldwell Banker, and there has been a downward pressure on office rental rates throughout the downtown area including the Port. Now landlords must compete for tenants. With a reasonable marketing effort the Port should be able to be very competitive in the commercial office space market. However, the Port does not have a marketing plan to compete in the office rental space market. Therefore, the Port's vacancies currently include at least twenty five percent of the Ferry Building, plus three empty office buildings and other vacant office space totaling 72,542 square feet. We estimate that the Port's vacancy rate is approximately 23.6 percent. This analysis of the vacancy rate for Port managed office space does not include those Port offices that are not managed directly by the Port staff, such as the Roundhouse.

Two Port office buildings have been vacant for more than one year. One building, located at Pier 27/29, is an 11,000 square foot office building located in the Maritime Reserve Zone. Some minor renovations would be required to make this space suitable for tenants. The Assistant Property Manager states that she has not had time to adequately advertise this 11,000 square foot office space but she estimates that it could have been rented last year for about $1.50 per square foot per month, or $198,000 per year if properly marketed. The Port staff estimates that a total of $75,000 ($55,000 in tenant improvements and $20,000 for handicap access requirements) in improvements to this office building would have to be made for it to be leasable. The net to the Port for leasing this office space for the past year would have been at least $123,000, while total revenues for the term of a five year lease would have been $915,000 ($990,000 minus $75,000).

The other building is located at Pier 94/96 and is a 12,000 square foot office building located in the Southern Waterfront Zone. Some minor renovations would be required before the building could be rented; the cost of these renovations would depend upon how many tenants would be located in this building. The office building at Pier 94/96 has also not been advertised or improved to any extent and it has been vacant for in excess of one year. The Commercial Property Department Staff estimated that this space could have rented for $.70 per square foot per month (this rate is less than areas that are closer to the downtown area or that have better public transportation available to tenants), or $100,800 per year. If the Port had invested $1.00 per square foot, or a total of $12,000 in improvements to this office space, the net to the Port for the past year would have been $88,800. The total rent for a five-year lease would be $492,000 ($504,000 minus $12,000).

The total rent that could have been achieved in the past year is $298,800 ($198,000 plus $100,800) minus $87,000 in improvements ($75,000 plus $12,000) for a net of $211,800. Even in today's competitive market for office space, a reasonable rental rate goal for the building on Pier 27/29 would be $1.25 per square foot per month ($165,000 annually) and for the building on Pier 94/96, $.50 per square foot per month ($72,000) for a total of $237,000 on an annual basis. The cost of improvements would still be $87,000.

A major problem with renting these two facilities is that they are both non-conforming uses (office space in a maritime use zone). Under current Port practices, this means that if the Port wished to rent either office space to a non-maritime oriented company on a long term basis, it would have to change the uses permitted in this zone by declaring the facility to be surplus to maritime use (a very long and not necessarily successful process). If the potential office renter were in a maritime related business, there would be no problem. We have made a recommendation for the rental of non-conforming uses of Port property in Section III.1 of this report.

The Port's other vacant office is space in the Ferry Building (presently 25% vacant), Agriculture Building and on various piers total an estimated 48,742 square feet. We acknowledge in Section III.1 on pages 42 and 43 that the agreement to rebuild the Ferry Building Complex could be a factor in the difficulty of renting office space in the Ferry Building Complex. In our opinion, an aggressive marketing effort by the Port could net a composite rate of approximately $1.00 per square foot per month or $584,904 per year for this space. Even if the Port were to spend $1.00 per square foot for remodeling purposes ($48,742), the first year net would still be an estimated $536,162. While there are always vacancies and turnover, the Port should be capable of keeping most of its approximately 310,000 square feet of office space rented, if it had an effective marketing strategy. If the Port were to attain the same 13.4 percent vacancy rate for office space, the same as the downtown area, it would require the Port securing tenants for approximately 31,319 square feet of office space, which, in our opinion is very reasonable. At a composite rate of $1.00 per square foot space would result in an annual

revenue of $375,828. Estimated remodeling of $1.00 per square foot would reduce the first year net revenue to $344,509 ($375,828 minus $31,319).

Industrial and Other Space

According to the Port's current vacancy report, the Port has a number of vacant sites and vacant buildings totaling an estimated 908,109 (434,400 of this space is discussed in Section I.1) square feet that could be used for light industrial or similar other uses. However, Port staff has not made a major effort to market these areas. We also have identified a number of Port sites that are underutilized (see Appendix). Port staff has believed that they could not develop leases for non-conforming uses on many of their facilities. Although the Port may negotiate with potential tenants for the use of Port sites from time to time, there is no formal program to market the great variety of Port sites. Such a program, including "short term leases" (leases of five years or less) could include a goal of the Port receiving $.20 per square foot or $181,622 annually for the industrial sites identified in the Port's vacancy report (not including uses of sites in Appendix A). Long term uses for these parcels and buildings are discussed in Section I.1, Strategic Planning.

Marketing

The Port has a number of facilities and land which could be developed for variety of uses. These potential sites are in addition to the projects to be developed by the San Francisco Redevelopment Agency. Development of the sites would require a major, full time effort, however. Commercial Property Department staff manage the present system of leases and licenses that has been in effect since before the Port was transferred from the State to the City in 1969. This system of leases and licenses has presented a number of problems that have occupied the staff time (see Section III.2) and prevents them from spending the time necessary for proper marketing of vacant Port facilities. As a result, the Port has not effectively marketed its vacant facilities. None of the present full time staff has an extensive background in marketing. The Commercial Property Department staff agree that a greater marketing effort must be made because of the competitiveness of the market place.

The Port will spend more than $300,000 this fiscal year including expenses for a full-time marketing specialist to promote its shipping services. At the same time, little is spent on promoting the Port's non-shipping facilities with the exception of classified advertisements for vacant space. The Port does spend money to market specific commercial projects, however.

In our opinion, Port staff should dedicate time to marketing the Port's resources, in particular by hiring staff or using the expertise of the Maritime Affairs Division's marketing staff, if necessary, to promote and develop a strategy for the use of Port property. One additional way to advertise Port land and facilities would be to prepare a packet of information describing Port facilities in general and vacant sites in particular. This packet could be included with information provided by the Maritime Affairs Division to potential shippers around the world as part of the Division's marketing effort and could be distributed locally through professional and trade organizations. But, marketing means much more than simply advertising that space is available, as the definition in the glossary defines marketing. It is estimated that the cost to hire a marketing specialist and develop a program would be less than $50,000 annually. Alternatively, these funds could also be used to hire an outside firm on an as needed basis to market Port properties. The Port has just transferred an intern (who has a Master's Degree in Marketing) from its Engineering Department to the Commercial Property Department to institute a marketing program.

Computerized Property Inventory

In order for the Port to improve its commercial marketing effort, the Commercial Property Department must also improve the quality of property information it maintains. The Port's computer program and report for tenant accounts (called BIFLICE) only has information on current leases and licenses. There is currently no listing for vacancies. In fact, when a lease or license is terminated, all references to the tenant or facility no longer appear in the Port's printed records. To find vacancies, the Department staff rely on a map of Port property and a computer report titled BIFVACA. The data from BIFVACA could be combined with the BIFLICE program so that an analysis of each site (space occupied and space vacant) could be made from one document.

The BIFLICE program can be readily modified to provide the necessary information for an inventory of occupied and vacant Port property. By using the present data input document more fully, the Commercial Property staff could create a document that provides more helpful information. For example, attached to the "Tenant Name" line could be the tag VAC-OFF MRLT. This would signify a vacant office building located on maritime-related property. In addition, all vacant property could have a special client number that would signify a vacancy and be used as a "sort" option on the computer. Other data such as the location of individual facilities and the number of square feet of space per facility are readily available by transferring the appropriate information from the lease or license just terminated or, for new listings, making estimates at the time information is entered into the computer, if the exact information is not known. The cost to modify this program to provide the needed data is minimal. This enhanced program would assist Port staff with the analysis of individual Port sites. We also recommend that the Port staff prepare a report on vacancies of Port property for the Port Commission. Such a report would aid the Commission's analysis of the status of Port property.

CONCLUSION

The Port has a number of facilities that could be rented for a substantial amount of revenue. These facilities require varying levels of rehabilitation. A concerted marketing effort by Port staff should result in a decreased vacancy rate for these facilities.

RECOMMENDATIONS

We recommend that the Port make a major effort to lease the two previously identified vacant office buildings and other vacant facilities and sites.

SAVINGS/BENEFITS

By achieving a vacancy rate for Port office space of 13.4 percent, the Port could realize an extra $375,828 annually. Marketing services, estimated to cost up to $50,000 annually, should be used to develop a strategy to achieve the revenue goals described in the Strategic Planning Section I.1. Additionally, an estimated one-time remodeling expenditure of $31,319 would be incurred.

SECTION IV

OTHER ISSUES

SECTION IV.I: CHINA BASIN HOUSEBOAT COMMUNITY

CURRENTLY, THERE ARE 49 BOATS BEING USED AS RESIDENCES AND 13 NON-RESIDENTIAL BOATS MOORED AT CHINA BASIN. THE PORT DOES NOT HAVE A SIGNED LEASE WITH THE HOUSEBOAT COMMUNITY IN CHINA BASIN. THE PORT IS NOW RECEIVING AN AVERAGE OF ONLY $12.90 PER MONTH FOR EACH BOAT BERTHED AT CHINA BASIN, OR A TOTAL OF $9,600 ANNUALLY FOR ALL 62 BOATS. A MARKET-RATE LEASE FOR EACH OF THESE BOATS WOULD RESULT IN AN AVERAGE RENT OF $264 PER BOAT PER MONTH, OR A TOTAL OF $196,800 ANNUALLY. FINALLY, THE PORT HAS NEVER BILLED THE OWNERS OF THESE BOATS AT CHINA BASIN FOR ELECTRICITY, RESULTING IN APPROXIMATELY $22,000 IN ANNUAL ELECTRICITY COSTS TO THE PORT.

In 1959, a group of houseboats residents moored at Islais Creek were relocated by the Port to the Channel at China Basin, where they continue to reside. The piers at China Basin where the houseboats are moored had at that time fallen into disrepair. There were no sewer hookups or other utilities, and raw sewage was discharged into San Francisco's Bay.

In 1975, based on San Francisco Bay Conservation and Development Commission (BCDC) requirements, the Port began eviction proceedings to remove the houseboats from the Channel. Based on assurances from the Port that a sewage system would be installed, the BCDC issued a permit for these craft to the Port in 1976 and the Port assigned this permit to the houseboat community. An agreement for a ten-year lease was negotiated between the houseboat residents and the Port, permitting twenty houseboats and thirty-five spaces for non-residential boats, but not providing any space for what are known as "live-aboard" boats.* However, according to the City Attorney's Office, the lease between the Port and the houseboat community was never executed. The form of the proposed lease has not been approved by the City Attorney's Office and has not been signed by either party.

Lease Uncertainties

In the proposed lease, the Port agreed to remove dilapidated structures, to construct new piers, install water, sewage and electric utilities, to provide amenities such as landscaping, toilet and shower facilities, parking spaces and to maintain some of the new facilities. The tenants agreed to take on certain maintenance and other responsibilities and to pay $1,800 rent monthly to the Port (partially adjusted annually by the Consumer Price Index (CPI)) for the berths and amortization of the Port's out-of-pocket expenses. This rent would be payable when the basic construction was completed

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* A "live-aboard" boat is one that is one that is fully navigable and serves as a residence. A houseboat, on the other hand, serves as a residence but cannot move under its own power.

or in January, 1978, whichever came sooner. Until that time, the tenants agreed to pay $400 per month, which would increase to $800 as facilities were constructed.

Without a signed agreement, the Port built new piers and installed utilities, including a sewage holding tank and pump station. The Port estimated that construction of these facilities entailed expenditures of $170,000 that would have been reimbursable under the proposed lease as well as non-reimbursable expenditures of $200,000. The Port has maintained the facilities since construction but has not kept detailed records of this maintenance expense nor has it been reimbursed for the maintenance work it performed. The initial rent of $400 per month was raised to $800 per month in 1980 but it was never increased to the $1,800 per month level called for in the proposed lease or adjusted by the CPI. By not charging the amount permitted in the proposed lease, the Port has lost $106,000 in revenues between January 1, 1978 and December 31, 1985, not including the CPI adjustment for ongoing Port maintenance expenses specified in the proposed lease.

The lack of a lease has also complicated the Port's legal relationship with houseboat tenants. For example, the proposed lease between the Port and the Houseboat Association specified that twenty houseboats (but no live-aboards) and thirty-five non-residential boats could be berthed at China Basin. Currently, there are eighteen houseboats, thirty-one live-aboard boats and only thirteen non-residential boats moored there. As a result, there are more than twice the number of residences at China Basin than the number allowed in the proposed lease, sixty three percent of which are live-aboards which were not to be allowed at all under the proposed lease. In the absence of a signed lease specifying the number of residences permissible at China Basin, the Port Managers do not know if they have the authority to reduce the number of either live-aboard boats or residential boats.

The Mission Creek Harbor Association, which represents the houseboat community at China Basin argues that signing the lease is a formality and that the lease is valid because it was approved by the Port Commission in November, 1977. The Association's Steering Committee asserts that it is prepared to pay the amount called for in the lease agreement, but has not been billed for this additional amount by the Port. Subsequent to the beginning of this audit, the Port staff and the Houseboat Association have had discussions to formulate a lease that would be accepted and approved by all parties.

Future Revenues

A BCDC staff report issued in July, 1985 contains statistics indicating that berth fees in the Bay Area are as much as $7.50 per foot per month, or $300 per month for a 40 foot boat, in addition to any rent that would be paid to the owner of the houseboat if the houseboat is rented. A survey of Bay berth fees by our office indicates that the average houseboat berth fee is $372, while fees for berthing live-aboards and non-residential boats range from approximately $200 to $300 per month. If a market rate berth fee of $300 per month were charged to the eighteen houseboats at China Basin, the Port would receive $64,800 annually. Charging $250 per month to live-aboards and non-residential boats would net the Port an additional $132,000 per year. Total China Basin berth revenues to the Port would thus total $196,800 annually, or an average of $264 per month for each of the 62 boats moored there, compared with the $9,600, or $12.90 per boat, earned by the Port in China Basin berth fees in 1985.

The Port is clearly not managing its property at China Basin profitably. While the facilities at China Basin may not warrant imposition of market rates, the Port could significantly increase the revenues received from the tenants located there. The Port

should immediately attempt to negotiate a China Basin houseboat lease at the market rate. If the Port is unable to negotiate near market rental rates, it could consider more profitable, alternative uses for the site.

Provision of Electricity

The Port buys electricity from Pacific Gas and Electric (PG&E) and resells it to some Port tenants (see Section IV.3). The Port has furnished electricity to the houseboats and was to receive revenue from the tenants according to a schedule based on actual power used by the tenants during the first year of tenancy at this location. The agreement called for sharing electricity expenses between the houseboat community and the Port; however, the Port has not billed the houseboat community for any electrical power. The cost for this power in 1985 alone was $21,610. The Mission Creek Harbor Association's Steering Committee has indicated that tenants would be willing to pay for all electricity as PG&E customers while PG&E has indicated that it would be willing to accept the conversion of electricity for the houseboats. The Port should require houseboat tenants to purchase electricity directly from PG&E.

Development of A Houseboat Code

The City of San Francisco does not have a houseboat code, as do Marin County and the City of Sausalito. Certain aspects of houseboat codes are unique, such as those regulating floatability, and are not reflected in the City's regular building codes. Without a houseboat code, the Port is not able to insure that building and safety standards particular to houseboats are met. While the Port could include these standards in the lease with the Houseboat Association, doing so would make it difficult to amend the code other than when the lease is renegotiated. In order to allow maximum flexibility in regulating the houseboats at China Basin, the Port should review the houseboat codes of other jurisdictions and recommend a houseboat code that would be jointly enforced by the City Planning Department and the Port's Engineering Department.

Communication Problems

Staff of individual Port divisions are not cognizant of the actions of other Port divisions concerning the houseboats. The following entities maintain some, but not complete, files concerning the China Basin houseboats: the Commercial Property, Accounting, Engineering, and Maintenance Departments of the Port, the City Attorney's Office, the Mission Creek Harbor Association and BCDC. There is very little overlap among these files, but, taken together, the files offered a relatively complete record for review. Further, Port staff in one division are not knowledgeable about actions concerning the houseboats taken by staff in other Port divisions. The Commercial Property Department is fully responsible for maintaining lease files and for collecting rents from other Port tenants, and should be given responsibility within the Port for maintaining all files concerning the houseboat community.

CONCLUSION

The Port received a permit from BCDC to allow 20 houseboats and 35 small boats to be moored in China Basin. The Port demolished existing dilapidated piers, built new piers, installed utilities and provided electricity and maintenance services to the houseboat community. In the absence of a lease, the Port has only received a nominal monthly rent for all of these services, at a loss to the Port of at least $106,000 to date. In addition, the Port lacks a mechanism to enforce houseboat

standards that are not addressed in the City codes. Finally, the collection of information concerning the houseboats is not well-coordinated.

RECOMMENDATIONS

We recommend that the Port negotiate a market rate lease with the China Basin houseboat community as expeditiously as possible or consider alternative uses for the site. If the houseboat community remains at China Basin, the Port should end its electrical service to the houseboat community and require the residents of the houseboat community to purchase its electricity directly from PG&E. We further recommend that Port staff review the houseboat codes used by the City of Sausalito and Marin County for applicability to the China Basin houseboats and develop a similar code to be enforced jointly by the Port and the City. Finally, the Commercial Property Department should be assigned the responsibility for maintaining complete files concerning the houseboat community.

SAVINGS/BENEFITS

Negotiating a new lease would result in the Port receiving near market rates for berth fees at China Basin or a potential increase in fees of $187,000 annually. In addition, the Port would save $22,000 annually by requiring the houseboat community to pay PG&E directly for its electricity. Finally, by developing a houseboat code, the Port would be able to ensure that houseboats meet reasonable building and safety standards.

Failing to negotiate a market rate lease with the houseboat community, the Port would still be able to increase the revenues earned at China Basin by using the site for another purpose.

SECTION IV.2: FIREBOAT

THE PORT EXPENDS OVER $1 MILLION ANNUALLY TO SUPPORT THE FIRE DEPARTMENT'S OPERATION OF THE FIREBOAT. HOWEVER, BETWEEN 1981 AND 1983 THE FIREBOAT WAS USED AN AVERAGE OF LESS THAN ONCE PER MONTH AND IN 1984 AND 1985 IT WAS USED AN AVERAGE OF LESS THAN TWICE PER MONTH TO FIGHT FIRES ON VESSELS OR ALONG THE WATERFRONT. THE PORT AND THE FIRE DEPARTMENT ARE IN DISAGREEMENT WITH EACH OTHER AS TO THE MOST COST EFFECTIVE LEVEL OF FIRE PROTECTION SERVICES. GIVEN THE LEVEL OF EXPENDITURES, THE IMPORTANCE OF FIRE PROTECTION AND THE VARIOUS ALTERNATIVES CURRENTLY AVAILABLE, A PROFESSIONAL ANALYSIS OF THIS SITUATION BY AN INDEPENDENT EXPERT EXPERIENCED IN FIREBOAT ACTIVITIES AT OTHER PORTS IS WARRANTED.

The Port of San Francisco has contributed to the expense of staffing, operating, berthing and maintaining the fireboat "Phoenix" on a 24-hour basis since the City took over the Port from the State of California in 1969. The vessel is operated by the Fire Department of the City and County of San Francisco. The cost of operating the Fire Department's fireboat is paid by the Port. The cost of the fireboat operation has increased from approximately $350,000 in 1969 to $1,054,956 in FY 1984-85, an average increase of 20 percent per year over this fifteen year period. Ninety-six percent, or $1,012,000, of the FY 1984-85 costs were for the permanent and temporary salaries, holiday and overtime pay and fringe benefits for Fire Department staff positions. Port fireboat costs for FY 1984-85 also included approximately $5,000 for fuel and $37,956 for maintenance. The fireboat costs represented 4.5 percent of the Port's total operating expenses of $24 million in FY 1984-85.

The fireboat Phoenix is berthed with the San Francisco Fire Department Engine Company No. 35, located at Pier 22 1/2, under the Bay Bridge. As presently operated, there is a one officer and a three member firefighter company employed and funded by the Fire Department available to respond to fires in the harbor, on Port property and in the downtown areas of the City with fire trucks, pumpers and/or the fireboat. In addition, a three-member fireboat crew, employed by the Fire Department but funded by the Port, is stationed at Engine Company No. 35, ready to respond to fireboat calls. In order to provide 24-hour coverage, ten staff people have been assigned to the fireboat.

The ten person fireboat crew, comprised of three Lieutenants, one Captain, three Marine Engineers and three Pilots, is responsible for the 24-hour operation of the fireboat. The Captain has overall responsibility on the fireboat, the Lieutenants substitute for the Captain during the alternate shifts, the Pilots are responsible for navigating the vessel and the Marine Engineers are responsible for maintaining the monitors, fuel flanges, gauges, pressure, generators, firepumps, etc. on the fireboat. The fireboat is staffed by three employees at all times. Additional Fire Department employees cover necessary vacation and sick time for the fireboat staff. The cost of this overtime is included in the total cost for fireboat operation given above.

The Port also owns, operates and maintains the "Frank G. White" tugboat, which has water pumping capacity and acts as a backup to the Phoenix, when necessary.

Use of the Fireboat

The fireboat has six primary functions:

1. Extinguishing pier and wharf fires and protecting the cargoes therein;

2. Extinguishing ship and boat fires;

3. Inspecting piers and wharfs for fire prevention purposes;

4. Providing an emergency pumping station to supply the Bay's high pressure water for fire fighting to all the downtown and industrial areas of the city;

5. Providing rescue services; and

6. Providing ceremonial water displays.

Based upon data maintained by the Port Fire Marshall, there have been 28 large pier or waterfront fires in San Francisco since 1966. Information on the amount of loss of structures and contents per fire has been maintained only since 1978. Since that time, there have been 19 major fires which left total losses of over $2 million.

In addition to these major fires, the fireboat may be used to respond to less severe fires, rescues and other alarms along the waterfront. Based on the Port Fire Marshall's monthly tabulations of all fireboat responses between January, 1981 and December, 1985 we found that the fireboat responded to an average of 1.22 calls per month requiring an estimated 1.77 hours of operation per month. This equals approximately one and one half hours per response per month during 1981, 1982 and 1983. Subtracting the number of false alarms, rescues and ceremonial uses of the fireboat, the fireboat was used an average of 0.8 times, or less than once per month to fight fires on vessels or along the waterfront in 1981, 1982 and 1983. Comparatively, in 1984 and 1985 the fireboat was in service an average of 4.8 times per month; the average for fire fighting calls only was 1.8 times per month.* When the fireboat is not in service the fireboat crew remains at the Engine Company, performing maintenance and/or administrative duties.**

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* These data do not include calls for the fireboat to be on stand-by or instances in which the fireboat is recalled back to its berth because land based engine companies are used instead.

** The Fire Department's response, which is attached at the end of this report, states that, according to their Computer Assisted Dispatch system for the period between January, 1983 through March, 1986, the Fireboat Phoenix averaged 9.7 emergency runs per month; this average includes fire alarms, rescue calls and standby service.

Legal Issues and Controversy

Neither the Burton Act, the agreement transferring the Port to the City from the State, nor the City's Charter require the Port to maintain a fireboat with a 24-hour marine and fire fighting crew. However, the Transfer Agreement does state, in Section VI, that the Port must maintain the same level of fire protection existing at the time of the transfer. In 1979, the City Attorney stated that the Port is not required to maintain the fireboat if the level of fire services existing at the time of the transfer can be provided in a reasonable fashion by other means.***

The Port and the Fire Department disagree about the continued need for and the most cost-effective level of fireboat services. The Port argues that significant changes have occurred which decrease the fire risks at the Port. These include both a decrease in maritime activity and the shift from exclusive breakbulk to mixed containerized and breakbulk cargo; containerization lessens the exposure of the cargo to fire. Thus, the increased use of containerized cargo at the Port reduces the risk of fire for the Port. The Port has also installed sprinkler systems on numerous piers and structures and removed several old fire prone wooden piers. In addition, the Port contends that the fireboat is ineffective in fighting Port fires due to its age, slow speed and limited capacity.

The Fire Department contends that the continued use of the fireboat is necessary to protect the public safety and property along the waterfront. The Fire Department points out that the Port has been slow in installing fire protection methods and there are numerous highly combustible wooden piers, sheds and warehouses that can only be accessed by the fireboat. Because the Port's capital improvement plan calls for the installation of sprinklers only when a facility is renovated or newly constructed, only 12 percent, or 64, of the Port's 547 structures are currently sprinklered for fire protection. The Fire Department also asserts that the fireboat was recently renovated at a cost of $818,000, paid for by general obligation Fire Protection Bonds and is an effective fire fighting tool.

Other Jurisdictions

For comparison purposes, we conducted a survey of the fire protection services at the following six West Coast ports:

- Port of Long Beach;
- Port of Los Angeles;
- Port of Oakland;
- Port of Redwood City;
- Port of Seattle; and
- Port of Tacoma.

*** Letter from the City Attorney to the Board of Supervisors on April 20, 1979 concerning the funding of the Fireboat Phoenix. This letter resulted from a controversy in which the City Attorney negotiated a settlement that provided for an equal sharing of fireboat expenses between the Port and the Fire Department. The Port Commission approved this Memorandum of Understanding but it was never acted upon by the Fire Commission. Since that time, the Port budget has funded all of the costs of the fireboat.

We found that of the six ports, five used fireboats for fire protection services. In all cases, it was the municipal fire department that provides these services to the ports, through some type of contractual, tax or budgeting process. However, we also found that three of these Ports are receiving new, faster, highly automated vessels with greater pumping capacity that require significantly fewer crew members to operate. In two cases, independent professional reviews have or are being conducted to determine the future level of fire prevention, fire protection and fireboat services that are warranted.

Alternative Arrangements

Despite the continued controversy over the level and costs of fireboat protection services, there has not been an objective analysis conducted of the alternatives that are available for fire fighting at the Port. Discussion with Port and Fire Department personnel, review of state-of-the-art technology on fireboats, analysis of the costs to continue present level of operations and interviews with port personnel at six other West Coast ports indicate that there are at least five alternative arrangements that San Francisco could consider. These include the following:

1- Joint funding between the Port and the Fire Department of fireboat and fire protection services, based upon an agreed upon level of services;

2- Changes in the level of fireboat services;

3- A more aggressive Port policy concerning the installation of sprinkler and other fire prevention measures;

4- Purchase of a new state-of-the-art (e.g. hydrofoil or amphibious vessel) fireboat, which would increase pumping capacity and speed and decrease annual operating costs; and

5- A joint powers and funding agreement among the various ports in the Bay Area (e.g. Oakland, Richmond, Redwood City) regarding fireboat services.

Various combinations of these alternatives may be possible.

There is a significant cost to providing fireboat services in San Francisco. However, it would be premature to either reduce fireboat services or to require that full fire prevention methods such as sprinklers be installed throughout the Port until a comprehensive, objective study by a fire protection services specialist is conducted. Such a study is estimated to cost approximately $20,000.

CONCLUSIONS

While the Port currently expends over $1 million annually to operate the fireboat Phoenix, between 1981 and 1983 the fireboat was used an average of less than once per month and in 1984 and 1985 it was used an average of 1.8 times per month to fight fires on vessels or along the waterfront. Over the years, there have been significant reductions in the Port's risk to fire, due to improvements in fire prevention installations. At the same time, adequate fire protection for the Port continues to be necessary. An objective analysis of the level of fire protection services that are necessary at the Port has not been conducted and is beyond the scope of this audit.

RECOMMENDATION

We recommend that the Board of Supervisors retain an independent consultant, highly experienced in fireboat activities at other Ports, at a total cost of approximately $20,000, to evaluate (a) the efficiency and effectiveness of the existing fireboat and other fire protection services maintained at the Port of San Francisco and (b) various alternative strategies as cited above for the Port to further increase its fire protection capabilities, to reduce the long term cost of fire protection and to reduce the Port's overall fire risk.

SAVINGS/BENEFITS

For a total City expenditure of approximately $20,000, the Port and the Fire Department would receive objective professional directives regarding the provision of the most cost effective fire protection services.

SECTION IV.3: PROVISION OF ELECTRICITY

PG&E IS UNDER AN ORDER FROM THE STATE PUBLIC UTILITIES COMMISSION TO DEVELOP A PLAN TO TAKE OVER THE PORT'S ELECTRICAL DISTRIBUTION SYSTEM. A TIMETABLE FOR IMPLEMENTING THIS PLAN HAS NOT YET BEEN FULLY DEVELOPED. PROVISION OF ELECTRICITY BY THE PORT RESULTS IN AN UNNECESSARY BURDEN FOR THE PORT'S ACCOUNTING, MAINTENANCE, AND ENGINEERING DEPARTMENTS AND INCREASES PORT LIABILITY FOR DAMAGES CAUSED BY ELECTRICAL FAILURE. FURTHER, AS OF 12/31/85, 66.5 PERCENT OF THE PORT'S OUTSTANDING ELECTRICITY BILLS WERE PAST DUE BY 90 DAYS OR MORE.

History and Current Status

The Port purchases electricity from Pacific Gas and Electric Company (PG&E) and resells it to some Port tenants at a twenty-five percent surcharge.* The Port has been reselling electricity in this way for at least seventy years, at rates based on the Port's tariff schedule filed with the Federal Maritime Commission. Port staff is responsible for electrical service installation, the maintenance of this service, reading meters and billing the Port's electrical customers.

The Port currently has 102 meters and 270 submeters for customers that buy electrical power from the Port rather than purchasing this power directly from PG&E. The Port maintains the service on Port property up to the point at which such electrical service joins the PG&E service. The Port furnishes its own materials and PG&E approves installations where appropriate. For tenants who wish to purchase power from PG&E, the Port approves tenant modifications to the electrical service through the Port's permit process so that PG&E will provide the electrical service to the tenant.

Fewer than ten of the Port's tenant leases require the tenant to purchase electricity from the Port. However, some tenants purchase electrical power from the Port because the facility they rent is not served directly by PG&E. The Port does not require tenants to post a deposit for the provision of electrical service.

Legal Mandate

In 1962, the State Public Utilities Commission (PUC) approved an application by PG&E to amend its Electric and Gas Rules 18, to end the reselling of power by PG&E customers (Application 42434, Decision 63562). This amendment contains a grandfather clause that allows some PG&E customers such as the Port to continue reselling power while PG&E develops a plan to convert electrical service from the Port. According to the Port's Electrical Engineer, PG&E and the Port have developed such a conversion plan but there is no timetable for the complete conversion of the electrical service, because much of the Port's electrical service does not meet PG&E's standards for conversion.

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* All Port tenants purchase gas directly from PG&E and water from the San Francisco Water Department.

Conversion Issues

Conversion to PG&E service can be so costly that many customers prefer to retain the status quo. In 1980, the World Trade Club made an analysis of the cost of converting the electric service in their portion of the Ferry Building Complex to PG&E standards to become direct customers of PG&E. This study showed that conversion would not be cost effective for them. Conversion was not undertaken at that time, but conversion to direct PG&E service and a general upgrading of the electrical service and facilities are part of the project for the Ferry Building Complex renovation.

In other facilities, such as Piers 9, 33 and 45, the electrical distribution system is so complex and non-standard that major expenditures would be needed to install a service that is acceptable to PG&E. Tenants with thirty-day licenses (the majority of tenants in Piers 9, 33 and 45) are reluctant to pay the necessary cost of conversion when they do not have the security of a long term lease which would allow them to amortize the cost of the conversion. As a result, they do not convert to direct PG&E service.

Formerly, PG&E service came to the Port's bulkhead for a single tenant and the Port resold the electricity to only one tenant. As piers have become surplus to maritime uses and the one tenant per pier has been replaced by many tenants, the Port has installed submeters to serve these tenants. Service was installed when needed and connected to PG&E service at the most convenient point with no basic scheme or plan for these electrical installations. For example, some tenants on Piers 1 and 3 receive power from a Pier 1 source and some receive power from a Pier 3 source. PG&E has stated that a number of these Port installed meters, transformers and distribution systems are unacceptable and will not provide direct service to these tenants until the system is rebuilt to meet PG&E standards. In order to bring these systems up to PG&E standards, the Port should plan for the conversion as part of its upgrading of all Port facilities. According to Port staff, most of the easier conversions have been made and those that remain are difficult, expensive and require a major planning effort.

Port Responsibilities

The Port's staff currently maintains electrical facilities that would normally be maintained by PG&E. The Engineering and Maintenance Division is responsible for the installation, maintenance, engineering, and recordkeeping of electricai service on Port property. The Accounting Department of the Port bills and collects payments for electrical service. The Port does not require a deposit for its electrical service to tenants, exposing the Port to potential financial loss from bad debts. The Port also has some responsibility for damages caused by failure of this system causing a possible electrical fire. Conversion to PG&E power would simplify the Port's maintenance function, decrease the Port's maintenance service expenses and reduce administrative liability for electrical damage and loss of revenue from bad debts.

The Port has encouraged a number of tenants to buy electricity directly from PG&E by converting their electrical service to PG&E standards at tenant expense. As a result, there has been a decrease in the number of customers from 1984 to 1986 as the Port implements its program to end its role as a reseller of electricity.** According to Port staff, twenty to thirty tenants make the conversion to PG&E service each year. Revenue exceeded costs for Port purchase of electricity in fiscal year 1984-85 by $242,000, compared with a surplus of $288,000 in fiscal year 1983-84, reflecting the reduction in the number of Port electrical customers. The Port's budget for 1985-86 shows revenues of $960,000 compared to an expected PG&E expense of purchasing power for resale of $768,000 for a surplus of $192,000.

However, the surpluses for provision of electricity by the Port do not consider Port expenses for the electrical services other than the cost of the electrical power from PG&E. Such additional costs include the cost of accounting, maintenance, engineering and materials, which are substantial but have not been fully enumerated by the Port. In 1979, Port staff estimated maintenance expenses alone to be $175,000 but staff has not estimated the amount currently being spent for maintenance or the cost of the other Port services. Using an inflation rate of four percent per year, we estimate maintenance expenses of $221,000 in 1985-86 compared with only $192,000 in net sales revenues. To the cost of maintenance must be added the expense of the other Port services. On balance, then, it is not cost-effective for the Port to maintain this service. We realize that this analysis is not an accurate cost accounting of current costs of reselling electricity. However, the Port does not maintain records to readily calculate this expense, which they state is significant. Port staff describe the provision of electricity as a marginal service which they would like to end. In addition, as of December 31, 1985 the Port had 66.5 percent or $176,499 in electricity sales accounts that are past due by at least ninety days. The Port is not likely to collect these delinquent accounts. Unlike most other Port over due accounts, however, the Port has already had to pay PG&E $141,199 to purchase this electrical power plus the Port has incurred the added expense of account administration.

Alternatives

In the Capital Improvements Section of this report (See Section II.1), we have made recommendations to upgrade and improve existing Port facilities to maintain safe and profitable operation of these facilities through a planned improvement program with a timetable established to refurbish each facility. The Port could include the upgrading of electrical service to handle office, restaurant and air conditioning equipment and simultaneously make the conversion of Port electrical service to direct PG&E service for each facility. The Port could fund these improvements to electrical service and not have to depend upon tenant requests.

While the Port cannot transfer all responsibility for electricity to PG&E without incurring costs, the Port could decrease the number of tenants which purchase electricity from the Port at little or no Port expense. Of the 270 Port electricity customers (submeter accounts), an estimated forty-nine accounts have monthly billings of less than

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** The Port has explored the possibility of buying electricity from Hetch Hetchy rather than from PG&E for its and its tenants' use. However, this would result in lost revenues to the City since the City receives more compensation from the resale of excess Hetch Hetchy power to PG&E per unit of electricity than it would from the Port. In addition, there would be an increase in transmission expenses to the City.

$20 and of these, eleven have individual meters. In addition, thirty-seven other accounts have individual meters. We recommend that the Engineering Department prepare an analysis of the cost to convert these eighty-six accounts (49 plus 37) to direct PG&E service and a strategy to implement this conversion.

In the short run, the Port could also increase revenues gained from selling electricity because the Port provides electricity to the houseboats and small boats in China Basin at no cost to these tenants. The Port paid PG&E $21,610 in calendar year 1985 for this electricity. Had the Port charged the houseboat community the standard twenty-five percent surcharge for this service, Port revenues would have totalled $27,012. According to the Fiscal Officer for the Port, an Accounting Department audit conducted two years ago of all electricity accounts did not include the account at China Basin. Therefore, China Basin houseboat tenants were not billed for electricity use. The Port should require that these China Basin tenants become direct PG&E customers as soon as possible but, until the change is made, bill them including the Port's surcharge. (See Section IV.I on China Basin houseboats).

CONCLUSION

PG&E is under a State Public Utilities Commission order to end the Port's reselling of PG&E power to Port tenants but neither PG&E nor the Port have fully implemented a plan to do so. The Port has an existing program to end the resale of electrical power but PG&E finds some Port electrical power distribution systems to be unacceptable. There are many problems for converting to direct PG&E service. However, this conversion should be expedited since it is not appropriate for the Port to continue to purchase and resell PG&E electrical power.

RECOMMENDATIONS

We recommend that:

- The Port and PG&E develop a joint program to encourage tenants to make the required conversions to PG&E service and to purchase power directly from PG&E.

- The Port develop a strategy to eliminate accounts that amount to less than $20 per month or that have an individual meter.

- As part of the overall capital improvements on Port property, the Port develop and implement a plan for converting service to PG&E on a facility-by-facility basis at Port expense as appropriate.

- The Port eliminate the clause in renegotiation of present leases and in future rental agreements requiring tenants to purchase electricity from the Port instead of from PG&E and to continue to bill these tenants until such a conversion to direct PG&E service is made.

- The Port require the houseboat community in China Basin to pay PG&E directly for the electricity it receives and, until the conversion is made to direct PG&E billing, to charge it Port rates, including the Port's surcharge.

- The Port require tenants who purchase electricity from the Port to post a deposit with the Port similar to the deposit required by PG&E for its service.

Note that, if the Port were to implement the above recommendations, these actions would reduce the number of Port electrical customers by forty-eight to eighty-six customers or from eighteen to thirty-two percent in the first year; the complete elimination of the reselling of PG&E electrical power by the Port would take many years.

SAVINGS/BENEFITS

The conversion of all the Port's tenants to direct PG&E service would permit the Port to comply with State PUC directives, will reduce the Port's maintenance requirements and accounting costs, will eliminate the Port's potential liability for providing electrical power to its tenants, and reduce exposure to bad debts.

GLOSSARY

GLOSSARY

Breakbulk Cargo: Cargo shipped in bags, boxes and/or on pallets.

Bulkhead: A wall or embankment for holding back earth to prevent its subsidence into a body of water such as San Francisco Bay.

Burton Act: An act approved by the State Legislature in 1968, and amended in 1980, to transfer Port lands from the State to the City to be held in trust by the City. The Act permits these lands to be used for commerce, navigation, fishing, open space and recreation.

Commerce: The buying and selling of goods.

Container: Typical containers are made of steel, are watertight, and measure 20 or 40 feet long, 8 feet wide, 8 feet high. Cargo is packed into containers, transported to and loaded aboard a ship.

Containers on Flat Cars (COFC): A method of transporting containers on railroad cars. There are two major variations, as follows:

- **Traditional:** a combination of 20 and/or 40 foot containers with a total length of 80 feet set in tandem on a standard 89 foot railroad flat car.

- **Double Stack:** A specialized railcar that is made up of sections. These sections, which measure approximately forty-five feet in length, share the railroad truck with the adjacent section. These 45 foot sections each have a capacity for two containers, one container stacked on top of the other. The advantage of the stack pack over the traditional railcar or boxcar is the reduction of tare weight by using stack packs. In effect, cost is reduced because two containers can be carried for almost the same cost as one container. (Tare weight is any weight other than the cargo that is associated with the movement of freight. For example, the weight of the railcar, itself.)

Demurrage: A charge assessed against merchandise that is not removed from a wharf within an allowable free time. Free time is currently seven days for inbound cargo or ten days for outbound cargo, excluding Saturdays, Sundays and holidays.

Dockage: A charge assessed against a vessel for berthing at a pier, wharf, or bulkhead, or a charge for mooring to another vessel so berthed. This charge is normally based on the vessel's length and the time that it is berthed (a daily charge per 24 hours).

Drayage: A charge assessed against a shipper for any trucking required to move cargo, based on weight or size and distance hauled.

Drybulk Cargo: Cargo, such as grain, that is loaded/unloaded in bulk to/from the hold of a ship to/from grain elevators. In the Bay Area most drybulk is exported.

Export: Freight destined for a country other than the country of origin.

Finger Pier: A wharf structure built over water extending from the shoreline like a human finger. By extending out from the shoreline, finger piers allow ships to be secured in deeper water away from shore and allow space for a greater number of ships to be tied up than would be possible if ships were secured parallel to the shore. Finger piers do not allow for the space required to maneuver containerized cargo.

Fishery: The business of catching, packing or selling fish, shellfish, etc.

Foreign Trade Zone: A Federal Government authorized public space where merchandise is accepted exempt from U.S. Customs laws and duties until offered for consumption in the United States or re-exported. Importers benefit from a reduction in insurance and overhead costs.

Import: Freight that is coming into a county from another country.

Intermodal: Between different modes of transportation such as ships and railcars.

Intermodal Container Transfer Facility (ICTF): A facility designed for containerized freight to be moved directly from a ship to a railcar or truck saving time and reducing freight handling and storage. The heart of the system is a railyard used to make or break up trains and a rail spur that runs along a wharf that allows a crane operator to move the container between the boat and railcar in one movement. When an ICTF is fully utilized, the container never touches the pier or storage area.

Lease: An agreement with specific beginning and termination dates.

License: As used by the Port, an agreement for use of a Port facility. A Port license can be terminated with 30 days notice by either party.

Liquid Bulk Cargo: Liquid cargo, such as petroleum products, tallow or vegetable oil, that is shipped by tanker.

Live-Aboard Boat: A boat used for both navigation and as a principal place of residence when moored. It is distinguished from a houseboat, which is used exclusively as a residence and is not capable of moving on its own.

Marketing: Marketing is not advertising; Although, advertising is a part of marketing. Marketing is a complex concept involving various other organizational activities. Marketing is the analyzing, organizing, planning and controlling of an organization's resources, policies, and activities with a goal of satisfying the needs and wants of selected customer groups at a profit. Therefore, marketing often begins with the organization of information used to decide and to define which customer groups are to be served. Then, information is required to decide the nature and design of the products or services to be offered, pricing strategies, sales and distribution channels to be used, advertising methods, and to decide collection and quality control practices. Marketing is the major responsibility of top management and controls and integrates all other activities of an organization.

Navigate: To steer or direct a ship or aircraft.

Navigation: 1. The act or practice of navigating; especially the science of locating the position and plotting the course of ships and aircraft. 2. Traffic by ship.

Revenue Sharing: As used by the Port, a concept where, in exchange for a commitment, there is a reduced tariff.

Roll On/Roll Off (RORO): A type of ship that allows automobiles, trucks and buses to be driven on (Roll On) and off (Roll Off) a ship. The RORO method is used extensively in the import of automobiles coming into the Bay Area.

Shipper: A shipping agent or someone who cosigns or receives goods for transportation.

Shipping: As used in this report, shipping means having to do with ships in Port.

Shipping line: A company providing ship transportation.

Subsidence: The process of settling, as in a pier settling into the harbor floor.

Stevedore: A person who contracts for the loading and unloading of cargo or baggage from and to ships. A stevedore firm hires longshoremen to perform the actual loading or unloading.

Tare Weight: Weight not associated with cargo, such as the weight of the container, container carrier, crew, tractor, and engine. One primary goal of efficient shipping is to reduce the ratio of tare weight to cargo weight.

Tariff 3-C: This is a schedule of rates charged for services such as dockage, wharfage, demurrage, etc. by the Port of San Francisco.

Terminal Operator: A company providing stevedore services to shipping lines and other ship operators.

Twenty-foot Equivalent Unit (TEU): A standard measure of container traffic. A container 20 feet long, 8 feet wide and 8 feet high is one TEU. A 40 foot container is equal to two TEU.

Wharf: A structure alongside which ships are tied to load and unload.

Wharfage: A charge assessed against a ship's cargo.

Wharfinger: An employee of the Port who oversees all activity on the piers, wharfs and bulkheads of the Port. Duties include, but are not limited to, ship loading and offloading, recording the time at the pier of moored ships, prepares reports of damage to facilities and verifies passenger traffic.

APPENDIX

UNUSED AND UNDERUTILIZED PORT FACILITIES

We physically surveyed Port property with Port maps and computer listings of Port leases and licenses in hand. The following list is the result of that survey. The list designates certain Port property as unused or underutilized. "Unused" means that the ground is free of manmade structures except for asphalt, sign posts or railroad tracks. "Underutilized" means that the Port property is currently under temporary use, such as under a license, and/or could be used for activities which would bring greater revenues to the Port. Some of this property is restricted from development by BCDC and State Lands Commission constraints.

Facility	Location (between)	Status	Notes
Pier 98	South end of Cargo Way and India Basin	Unused	Currently a trash dump and illegal fill. Potential for Commercial development could complement adjacent Redevelopment Agency's India Basin Industrial Park.
Pier 96	Cargo Way and Bay at Jennings Street	Underused	Currently vacant office building. NE corner of Cargo Way and Jennings Street currently has a restaurant but could be developed in conjunction with 100-foot wide strip of Port property on east side of Cargo Way. Again, potential to use land to complement industrial park on West side of Cargo Way without disrupting ITCF use of Piers 94/96 and SWL 344 and 352.

Facility	Location (between)	Status	Notes
SWL 352	Cargo Way and Pier 94 and Islais Creek	Unused	Currently this area is in a near-natural state except for dumped materials. Port has plans to expand ICTF into this area. This land has potential for mixed-use development.
SWL 344	Cargo Way and Piers 90/92	Unusued	Currently the southeast of this area is in near-natural state except for dumped materials. Port has plans to expand ICTF into this area. This land has potential for mixed-use development and/or for temporary development until redevelopment of Pier 90/92 can be financed after 1996 or a private developer is found. Unused space to east and west of Amador Street fronting on Cargo Way and Third Streets is especially valuable if used. Tallow plant at end of Amador Street is planned to be removed.
SWL 349	Twentieth and Twenty-second Streets and Pier 70 and Port's shipyard facility used by Todd.	Underutilized	Three large empty industrial buildings, two of which are comdemned and the other is contaminated with PCBs. Large empty area used for vehicle storage. Port reports that it is negotiating with two developers at this time. Potential for significant mixed-use development in association with new commercial activity along Illinois Street.
SWL 345 Piers 64 and 54	Illinois, Mariposa and China Basin Streets extending to Pier 50	Unused and Underutilized	Area currently has mixed-use of boat repair, marina, yacht club, restaurant, park, railroad terminal, and unusued vacant sapce. Area has potential for significant upgrading from current minimum rents of 1.7¢ to 5¢ per square foot per month.

Facility	Location (between)	Status	Notes
SWL 343	Illinois and China Basin Streets near Mariposa Street	Underutilized	Corner is vacant eyesore with overgrown weeds and debris. Building is underused. Adjacent non-Port property is used for active retail outlet, Esprit. Port receives more for allowing Esprit to use Port land for a parking lot than the Port receives from most other facilities in the area.
China Basin	Channel and Berry Streets	Unused and Underutilized	Currently used by houseboat community. See Section IV.I. Area is generally an eyesore. In addition to the Channel, the Port owns a sixty-foot strip, which is unusued, on the south side of the Channel from 4th Street west nearly to 7th Street. Currently vacant land to north of Channel could increase in value with improvements to Port property which would give value to access and use rights to the Channel. Area is planned to be included in Mission Bay Project development. Port could receive significant rental revenues from this land used by development company.
SWL 336 Pier 46B	Berry, Third Streets and China Basin	Underutilized	Building used for temporary uses under license. Could be considered for development with other China Basin properties.
SWL 335 SWL 334 SWL 333 SWL 332 SWL 331 Pier 40	Embarcadero and: Berry Street Berry, Second and King Townsend First and Brannan Fremont and Brannan King Street	Unusued and Underutlized	These properties have been either unused or underutilized for years. Currently the Redevelopment Agency has taken over the lead for its South Beach Redevelopment Project. In a way, this is a demonstration of activity that could have been undertaken by the Port. Most of this land is currently an eyesore of weeds and debris. Some is rented on month-to-month license for mini-storage commercial use.

Facility	Location (between)	Status	Notes
SWL 330 SWL 329	Embarcadero and: Beal and Bryant Main and Bryant	Unused Unused	Eyesore land of weeds and debris. Port stores its Belt Railroad engines on these lots rather than keeping them either in shelter or selling them. Most private area adjacent to this land is developed and very active. Port states that it needs SWL 329 for parking for ship repair workers using Pier 28. However, SWL 329 and 330 have potential for very valuable development.
Pier 34	Brannan Street	Unusued	Pier is a dilapidated eyesore.
Pier 30/32	Brannan and Bryant Streets	Underutilized	Currently used for parking, docking idle ships, heliport and docking large military vessels on tour. There have been a plethora of suggested uses for this space.
Pier 26	Bryant and Harrison Streets	Underutilized	Half of this pier is used on a temporary basis.
Pier 24	Harrison Street	Underutilized	Currently used only under temporary licenses.

Facility	Location (between)	Status	Notes
SWL 327 SWL 348 SWL 347S SWL 347N	Steuart and: Folsom Folsom and Howard Howard Howard	Underutilized Unusued Unusued Unused	Partially used in conjunction with coffee roasting plant, remainder is unused but for temporary parking uses. The Redevelopment Agency has taken over this land for its Rincon Point Project.
Agriculture and Ferry Buildings	Mission and Market Streets	Underutilized	Currently used on temporary basis. Plans for development are stalled pending settlement of litigation.
Piers 1½, 3, and 5	Washington and Broadway	Underutilized	Development plans are pending for these piers.
SWL 351	Washington and Jackson	Unusued	Currently used for parking and a service station.
Pier 9	Vallejo Street	Underutilized	Part is used by a tugboat company. Remainder is under temporary use.
SWL 324 SWL 323 SWL322-1	Davis, Broadway, Vallejo Davis, Vallejo Front, Broadway and Vallejo Streets	Underutilized Unused Unusued	Half of SWL 324 utilized as a restaurant, the other underutilized half is a parking lot. SWL 323 and 322-1 are currnetly used for parking and a service station.
SWL 321	Green Street	Unused	Used for parking. This lot is an eyesore, covered by weeds and trash.
Pier 27/29	Lombard and Chestnut Streets	Underutilized	Empty office building.

Facility	Location (between)	Status	Notes
Pier 33	Bay Street, Northpoint Street, Embarcadero	Underutilized	Temporary uses and unused office space. Port has long-term plans for using Pier 33 for a second passenger terminal.
SWL 314	Bryant and Northpoint Streets	Underutilized	Currently used as carwash.
Fishermans Wharf		Underutilized	Pier 45 has either temporary uses or is unused. Other buildings and piers are deteriorating because of deferred maintenance.

WRITTEN RESPONSE OF EXECUTIVE DIRECTOR

EXECUTIVE DIRECTOR'S WRITTEN RESPONSE

TO

MANAGEMENT AUDIT OF THE PORT OF SAN FRANCISCO

by

Eugene L. Gartland

(REPORT TO THE SAN FRANCISCO BOARD OF SUPERVISORS

BY THE BUDGET ANALYST)

MAY 1986

INTRODUCTION

The Budget Analyst's Management audit of Port of San Francisco operations is disappointing and misleading in several respects.

Despite extensive comments offered by Port administrative staff following review of two earlier drafts of this report, the version given to us for final review still contains numerous self-contradictions and errors of fact, and it continues to reflect a serious lack of understanding of the legal, political, and economic environments in which the Port must operate.

Among its many inadequacies, the following stand out*:

- Vacancy rate is miscalculated -- The Budget Analyst's report erroneously claims a vacancy rate of 23.6 percent (page 50) for Port properties, which it further claims is far above the vacancy rate in the city as a whole. In fact, the Port has only 60,000 square feet of office space vacant, out of a total of 404,000 sq. ft. available, for a vacancy rate of 15 percent, which is comparable to that of the Financial District and better than that of many of the city's business areas.

- Commercial value of Port property is not understood -- The report's projection of $100 million in annual revenues from commercial development (page 12) is based on a mix of faulty logic and an unsubstantiated valuation of Port property at $1 billion. The market value of a given parcel of land is directly related to what can be built on it. Correspondence between the Port and such legally empowered regulatory agencies as the Bay Conservation and Development Commission (BCDC) and the State Lands Commission makes it clear that some of the things specifically recommended by the Budget Analyst's report are prohibited (the recommendation to build a mixed-use development on Pier 80, for example).

- Cost estimates are inconsistent -- On Page 2, the report states that the cost to implement all of its recommendations would be "$50,000 annually, plus $58,533 in one-time costs." On page 17, it states that "implementation of this recommendation would require the Port to spend an estimated $20 million annually over 10 years and would require a significant undetermined amount of capital investment and personnel cost."

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* We cannot be certain our comments will correspond item for item with the report as released, since the Budget Analyst has reserved the right to alter the final report should our final written response prove persuasive.

- Renegotiation of long-term leases is unlikely -- Several restaurants in the Fisherman's Wharf area, holders of extremely favorable leases that do not expire until well into the next century (all of them dating back 10 to 15 years), have entered into short-term agreements with the Port for small parcels of adjacent property. The Budget Analyst appears to hold the opinion (page 42) that these leaseholders would be willing to renegotiate their long-term leases on terms more favorable to the Port in order to protect the smaller parcels now held on month-to-month terms. We consider that prospect unrealistic at best.

From these few points, and a great many others contained throughout the report, it is apparent that the auditing team of the Budget Analyst's office does not have a firm grasp of the realities of managing Port lands. And the report fails repeatedly to perceive the significance of the fact that these lands do not belong to the City of San Francisco but are, in fact, state-owned lands over which the Port exercises stewardship under elaborate constraints.

The Port's actions are regularly and closely scrutinized by such agencies as BCDC, the State Lands Commission, and the U.S. Army Corps of Engineers, to name but a few of the local, state, and federal jurisdictions in which we operate. Each has its own view of what is best for the waterfront, each interprets and administers the various laws governing the Port's activities, and all must be taken carefully into account in virtually everything the Port undertakes. The audit does not recognize these political and legal realities, and in effect lightly brushes them aside.

Nor do the auditors seem familiar with the maritime industry or the City's commitment to it, as expressed on numerous occasions by Mayor Dianne Feinstein and endorsed by an overwhelming majority vote for a $42.5 million bond issue to revitalize the Port's maritime operations.

There are, of course, some recommendations of merit in the report. However, many of them already have been, or are in the process of being, implemented.

The Port of San Francisco is arguably the City's greatest single asset. From the colorful and historic fishing industry at Fisherman's Wharf to the blue-collar employment centers along the industrial southern waterfront, Port facilities are among the most visible and productive resources in the City. Proper management of these resources demands a professional knowledge of all the markets they serve, as well as a thorough understanding of the existing political, legal, and economic environments in which they must be operated.

On each of these requirements, we find the Management Audit to be deficient.

AUDIT STATEMENT
SECTION I.1: STRATEGIC PLANNING

"THE PORT HAS SOME OF THE MOST VALUABLE PROPERTY ON THE WEST COAST. HOWEVER, OVER THE YEARS THE PORT'S MANAGERS HAVE NOT DEVELOPED AN INTEGRATED PLAN IN ORDER TO USE THE PORT'S COMMERCIAL PROPERTY RESOURCES TO FINANCE THE DEVELOPMENT OF FACILITIES FOR THE MARITIME AND FISHING INDUSTRIES. WHILE THE PORT HAS MADE VARIOUS ATTEMPTS TO DEVELOP SOME OF ITS PROPERTY FOR COMMERCIAL USE, AND WHILE STATE REGULATORY AGENCIES HAVE HINDERED THESE ATTEMPTS, THE PORT HAS NOT BEEN AS AGGRESSIVE IN THE DEVELOPMENT OF ITS PROPERTIES FOR COMMERCIAL USES AS IT HAS BEEN IN DEVELOPING ITS PROPERTIES FOR THE SHIPPING INDUSTRY. AS A RESULT, AT LEAST ONE MILLION SQUARE FEET OF PORT PROPERTY IS EITHER UNUSED OR UNDERUTILIZED. FOR EXAMPLE, FOUR FACILITIES ON PIERS 27/29, 70, 80 AND 94/96, WHICH HAVE BEEN VACANT FOR OVER ONE YEAR, CONTAIN OVER 434,000 SQUARE FEET OF OFFICE AND INDUSTRIAL SPACE. BASED ON A TEN PERCENT GROSS REVENUE RETURN ON THE ESTIMATED PROPERTY VALUE, THE DEVELOPMENT OF ALL PORT PROPERTY, CURRENTLY VALUED AT AN ESTIMATED $1 BILLION, COULD RESULT IN AN ESTIMATED $100 MILLION IN MINIMUM ANNUAL REVENUES TO THE PORT WITHIN TWENTY YEARS, OR OVER $70 MILLION MORE THAN THE PORT'S CURRENT ANNUAL RENTAL REVENUES OF $29.3 MILLION."

PORT'S RESPONSE

The Port, City and BCDC have an integrated plan for development of Port land to finance the maritime and fishing industries. Port projects have produced a steadily increasing profit since the years the Port faced financial crisis. Revenues are produced by five major office buildings, numerous restaurants, retail businesses, Pier 39 and office rentals. With this income and an A-1 bond rating, the Port sold a $42 million bond issue to finance maritime and Fishermans's Wharf improvements. More projects are in the pipeline on Piers 3 and 45 and four other northern waterfront parcels are planned for development. The Report suggests the Port should have built on its properties whatever a private landowner would build and failure to do so shows a "limited enthusiasm". In fact the State Constitution, legislative acts and regulatory restraints prohibit such land uses. The value of Port land is directly related to the permitted uses. The report states, due to land use restrictions, "... the Port must put all development to low revenue producing maritime purposes or do no development at all ...." and then the Report is critical of the Port doing what they say we must do! The actual vacant space in the areas referred to is 36,050 sq.ft., not 434,000 as the report erroneously states by counting 300,300 sq.ft. now under environmental review and two other unusable sites. The report provides no substantiation of the value of Port property. The $70 million increase in revenues the report says the Port could achieve in twenty years would be achieved solely through eight percent annual growth and escalation with no new development.

Port's Detailed Response:

The Issue of Real Estate, Regulatory and Maritime Context

The Report did not examine or understand the real estate, regulatory or maritime context of Port property. Notable omissions in the list of agencies interviewed are the Bay Conservation and Development Commission (BCDC) and the State Lands Commission, the two agencies with

primary regulatory control over Port land. The report suggests that the Port has not been aggressive enough with these agencies, while in fact the present administration more than any previous leadership has made a priority of working to resolve the conflicting directives and land use policies governing the Port.

The Port does not "invent" these restrictions (see the McAteer-Petris Act; Public Resources Code; Planning Code, Section 240.1). Under Section 6306 (b) of the Public Resources Code as well as the Burton Act, it is clear that all revenues received from these trust lands shall be expended only for those uses consistent with the public trust for commerce, navigation and fisheries. Regulatory agencies have advised that the land use and development choices are strictly limited. The Port supports legislation or amendments modifying existing constraints so that reasonable development can take place.

The Port is also subject to the leasing, land use, and environmental authority of the Board of Supervisors, City Planning Commission, U.S.Army Corps of Engineers, Regional Water Quality Control Board, Fish and Game, Coast Guard, and other agencies. Maritime development must provide public access to the shore and cause minimal impacts to the Bay. Non-maritime developments must pay for and maintain large areas of public access, as well as pay the fees imposed by the City for transit, etc.

The Issue of Accomplishments

It would be hard to find a more constrained business and regulatory environment within which to work. In this context, it is remarkable that the Port has effectively pursued so many worthwhile projects. A partial list includes:

- North and South Container Terminal modernization
- Intermodal Rail/Container Transfer Facility (ICTF) design and development
- Fisherman's Wharf Breakwater legislation, funding and implementation
- Jefferson St. Seawall funding, design and completion
- Commercial fishing berth improvements (power, water, ladders)
- Pier 30-32 Cold Storage and Container Freight Station development
- Pier 70 Warehousing and Container Freight Station planning
- Roundhouse Plaza leasing agreement
- Pier 7 Public Fishing Pier design, funding and grant applications
- Pier 45 Hotel and Hyde St. Pier commercial fishing project
- Piers 1-1/2, 3, and 5 offering and developer selection
- Waterfront Promenade funding and completion

The Issue of Conflicting Land Use Directives

The Report states that the Port "falters" when a difficulty is encountered in the planning or regulatory process. This is untrue. For example, in order to expedite processing of Port environmental review through the City Planning Department, the Port has paid the salary of Environmental Review staff to augment departmental resources. Port staff also has an excellent relationship with BCDC staff, and this cooperation has resulted in expedited permit review. No examples of the "faltering" are given in the report.

As an example of the conflicts in planning done by outside agencies, Pier 45 was designated for housing in 1981 - a use explicitly prohibited under

the public trust doctrine of the State Lands Commission. The current Port administration formed a civic advisory group, redefined the land uses, and is moving ahead with a new pier and berthing for commercial fisheries and a hotel and public assembly uses on Pier 45. In another example, Pier 24, designated by planners for mixed use development, is in poor structural condition and has to be rebuilt. Rebuilding can only be permitted if the uses are water-oriented under the McAteer-Petris Act (BCDC legislation) and cannot be for office or commercial use. This is an example of a "self-cancelling" land use policy that the Port inherited and is working to change.

On the southern waterfront, BCDC/MTC Seaport Plan designates "Near Term" and "Long Term" container terminal sites, and BCDC will only permit interim uses in these areas. On Port land there are four such sites which consist of hundreds of acres of Port and privately owned land. When the Port wanted to put a ship repair operation at Pier 50 under a long-term lease, it was precluded from doing so by BCDC. This operation was limited to five years and may not be renewed without a commitment to relocate. But it presently returns to the Port $750,000 annually.

The Issue of "Sound Business Management"

We share the report's concern for the ability of the Port to fund needed improvements to its facilities and infrastructure without relying on the General Fund. However, the Report dwells on old issues and decisions of past administrations perpetuating myths about poor management. The Report ignores a ten-year record of increasing financial strength, professional staffing changes, upgrading of bond rating from Bbb to "A-1", reduction in accounts receivable and favorable management letters from its outside auditors.

The Port has been brought from the threat of bankruptcy in 1976-77 to a strong financial position at present, with a net income of $5.8 million in 1985. This could never have been accomplished without professional, business-like management. The Report has numerous references to past decisions which the present management cannot change. Yet the Port must still deal with the consequences of those decisions.

The Issue of Use of Private Developers

The Port has used the financing provided by developers under long-term leases to accomplish development of surplus property which has been very attractive to private investment. The Report suggests such an approach as if it were a wholly new idea. This has been Port Commission policy for many years as outlined in Maritime Strategy II. The leases provide that the Port participates in the profits from these developments, receiving a minimum rent plus "percentage rents" based on the profitability of the development. This has been standard practice for many years.

The Issue of Costs to Implement Report Recommendations

The introduction to the report estimates the cost to implement the Report's recommendations at $50,000 annually plus $58,539 in one time costs. But the body of the Report states that one recommendation alone would cost $20 million annually for ten years and an undetermined amount of capital and personnel cost. The Report underestimates the costs and exaggerates the gains to be achieved by implementing its recommendations but does nothing to substantiate its projections.

AUDIT STATEMENT
SECTION I.2: FACILITY ACCOUNTING

"SINCE THE PORT DOES NOT ALLOCATE REVENUES AND EXPENDITURES TO ITS SPECIFIC FACILITIES, THE PORT DOES NOT KNOW EITHER THE COSTS OF ITS SPECIFIC FACILITIES OR WHETHER THESE FACILITIES ARE OPERATING AT A PROFIT OR A LOSS. AS A RESULT, THE PORT IS NOT ALWAYS ABLE TO OPERATE IN A BUSINESSLIKE MANNER. WITH THE LACK OF THIS BASIC COST INFORMATION, THE PORT IS HAMPERED IN MAKING SOUND DECISIONS AND DOES NOT KNOW IF THE EXPENDITURES MADE AT A SPECIFIC PORT FACILITY ARE JUSTIFIED BY THE REVENUES GENERATED BY THAT FACILITY. FOR EXAMPLE, THE PORT DOES NOT KNOW THE MAINTENANCE COSTS OF EITHER FISHERMAN'S WHARF OR OF PIERS 94/96."

PORT'S RESPONSE

The Port has a plan to implement, within nine months, an automated cost accounting system that will provide revenues and expenses by facility. This is not a new idea, but one that current staff initiated. The Port is awaiting approval by the City of its data processing plan essential to this effort. Revenue and direct expense information by facility is currently available. The Port's favorable management letters from its outside auditors, improved bond rating, coupled with its increase in revenues, additional shipping lines and development agreements do not substantiate the Report's charge of not operating in a sound, businesslike manner.

AUDIT STATEMENT
SECTION I.3: COLLECTION PROCEDURES

"THE PORT'S ACCOUNTING DEPARTMENT HAS INADEQUATE POLICIES WITH RESPECT TO THE COLLECTION OF THE PORT'S DELINQUENT ACCOUNTS RECEIVABLE OWED BY ITS TENANTS. THE PORT CURRENTLY HAS DELINQUENT ACCOUNTS AMOUNTING TO $3.68 MILLION INCLUDING SOME ACCOUNTS THAT ARE OVER TWO YEARS OLD. AS OF MARCH, 1986, NINE TENANTS OWE THE PORT IN EXCESS OF $1.6 MILLION AND HAVE BEEN IN ARREARS FOR OVER 60 DAYS BEYOND THE DUE DATE FOR THESE PAYMENTS. THE PORT HAS WRITTEN OFF BAD DEBTS OF OVER $700,000 IN 1985, AND OVER $400,000 IN 1984. AS OF 12/31/85, 63.2 PERCENT OF THE PORT'S ACCOUNTS RECEIVABLE WERE PAST DUE BY 90 DAYS OR MORE. REVISING PORT COLLECTION POLICIES AND INCREASING TENANT SECURITY DEPOSITS WOULD INCREASE PORT REVENUES BY AT LEAST AN ESTIMATED $40,000 ANNUALLY."

PORT'S RESPONSE

The Port has an aggressive and well documented Collection Policy. It compares favorably to similar ones in private industry and other City departments. In the last three years the Port's receivables decreased from $5.6 million to $3.5 million, accounts 60 days past due decreased from 367 accounts to 192, accounts receivable as a percentage of six-month sales decreased from 44% to 24%. The nine accounts over 60 days are in the City Attorney's hands for collection. Four of these are facility damage claims, not delinquent rents. One, Roundhouse, is a rent deferral approved by the Board of Supervisors. Collections policies will not change accounts in litigations. The $700,000 written off in 1985 was 2.4% of total operating revenues; the $400,000 in 1984 was 1.4%. The Accounts Receivable Write-off Policy was approved by the Port Commission and has been in effect since July 1984. Of the 63.2% receivables 90 days past due, accounts representing 47.5% have been forwarded to the City Attorney and are in litigation. Only 15% are the responsibility of the collections section.

Port's Detailed Response:

Continued, next page.

The Issue of Collections Policy

The report recommends that the Port develop and install new collection procedures, and that these procedures should cite legal authority for taking actions. The report further recommends that the Port should amend the write-off policy to include downward adjustments of accounts.

The Port has adopted and follows an aggressive, well documented, comprehensive collection policy which includes strict legal guidelines. A copy of the collection policy was provided to the audit team. The City Attorney has reviewed the collection policy and has approved it. In fact, the Budget Analyst is the only party to believe additional citing of authority is necessary, although the Budget Analyst admits that this would likely not result in increased collections.

The "downward adjustments", quoted above, refers to credits to accounts receivable for billing adjustments, which are made to correct billing errors. These have nothing to do with bad debt write-offs, and we see no reason to include it in either the collection or write-off policies.

$40,000 in revenues could be saved by increasing tenant deposits. However, this can be accomplished without revising Port collection practices. The Budget Analyst offers no suggestions to improve collection policies or procedures that will result in increased revenues.

The report recommends the Port develop a comprehensive procedures manual which addresses all such collection issues and details the circumstances and authority under which any actions can be taken. A collection policy and a collection procedure have already been developed and are in place and working well. These policies, along with the write-off policy, specifically identify the steps in the collection process, the timing of these steps, and responsibilities by staff position. The policies also list levels of authority by staff position to recommend settlements and write-offs of accounts, which then must be approved by the Port Commission and the Controller's Office.

The report recommends that we develop a program -- in conjunction with the Wharfinger's Department -- to improve the collection of facility damage claims in order to determine the proper amount due to the Port. The Port has a Facility Damage procedure, prepared in October 1984, which addresses this issue and is working well.

AUDIT STATEMENT
SECTION II.1: CAPITAL PROJECT PLANNING

"THE PORT IS COMMITTING MILLIONS OF DOLLARS IN BOND FUNDS AND OTHER FUNDS TO MODERNIZE CARGO HANDLING FACILITIES IN THE HOPES OF CAPTURING MORE CONTAINER SHIPPING BUSINESS. THE PORT HAS ORDERED TWO NEW CRANES AND IS ACQUIRING ONE USED CRANE AT A COST OF $6.9 MILLION. ADDITIONALLY, THE PORT PROPOSES TO REBUILD AN EXISTING CRANE AT A COST OF $1 MILLION EVEN THOUGH THE USE OF THE PORT'S EXISTING CRANES IS FAR BELOW THE INDUSTRY AVERAGE. IN FACT, TO INCREASE THE PORT'S PRESENT CRANE USAGE TO THE INDUSTRY AVERAGE, THE PORT WOULD HAVE TO INCREASE THE ANNUAL NUMBER OF CONTAINERS MOVED BY 227 PERCENT FROM AN AVERAGE OF 15,303 TO AN AVERAGE OF 50,000 FOR EACH OF ITS SEVEN EXISTING CRANES WHICH ARE NOW USED LESS THAN FIVE PERCENT OF THEIR AVAILABLE TIME. CLEARLY, BY ADDING THREE CRANES FOR A TOTAL OF 10 CRANES, THE PORT'S CONTAINER HANDLING CAPACITY WILL FAR EXCEED ANY CARGO PROJECTIONS WELL INTO THE FUTURE. THEREFORE, THE PORT SHOULD DEFER THE PROPOSED $1 MILLION REBUILDING OF AN EXISTING CRANE AND DEFER AN ADDITIONAL ESTIMATED $4 MILLION FOR OTHER CARGO HANDLING IMPROVEMENTS. THIS TOTAL OF $5 MILLION SHOULD BE PRODUCTIVELY USED FOR THE DEVELOPMENT OF SEVERAL COMMERCIAL REVENUE PRODUCING CAPITAL PROJECTS ON PORT PROPERTY."

PORT'S RESPONSE

This recommendation is a poorly supported attempt to divert funds from container terminal modernization to non-maritime maintenance and repair projects with no income producing potential. The Port has a very specific plan for its capital projects which is periodically updated to reflect current requirements. The $1 million for the upgrading of one container crane has never been scheduled for implementation and is, in effect, deferred. $4.0 million, which apparently related to an outdated estimate to modify two railroad tunnels, was reprogrammed over 12 months ago to another high priority project - realignment of rail track to improve terminal access. Any arbitrary unspecified reprogramming of bond funds to non-maritime projects would jeopardize currently planned and scheduled container terminal and ICTF construction plans and therefore would be extremely detrimental to the Port.

Port's Detailed Response:

The Issue of Maritime Development

The Port of San Francisco is in a "catch up" mode with respect to building the facilities that are needed for the Port to be a competitive player in the container marketplace. However, as the Report points out, San Francisco has rail access equal to or better than other Bay Area ports, and has natural deep water channels. Construction of the Intermodal Container Transfer Facility (ICTF) gives one additional cost advantage to shippers using San Francisco. With these assets, the Burton Act mandate, and the voters' approval of the bonds to finance needed improvements, it would be irresponsible for the Port to do anything but modernize its terminals.

Modern vessels are becoming larger and larger, with deeper draughts and more containers. Additional cranes are required because container vessels are getting larger and it is the "surge" nature of the loading/unloading of thousands of containers in eight hours that requires crane capacity.

Ships do not make money while sitting in Port. Shippers do not want to call where there is poor turn-around time. In the Port's marketing, it is impossible to attract new lines on the basis of future promises of what will be built. The report says the present cranes are idle most of the time; but so are most of the City's fire trucks. This is an illogical argument. Playing statistical games is no substitute for understanding maritime marketing and competition. The Southern Waterfront Master Plan, adopted by the Port Commission in 1981, and incorporated into the BCDC/MTC Seaport Plan, is the blueprint for development currently underway. The Port's analysis included cargo and throughput projections, criteria and schedule for improvements. The Port has completed a comprehensive Environmental Impact Report ("Master EIR") for all the anticipated development options for the North and South Container terminals.

The Issue of a Capital Development Plan

The maritime capital development plan is a hierarchical set of plans, proceeding from the regional (Seaport Plan) level to the specific implementation plans (engineering and working drawings) that are developed for each project. The Report implies that maritime improvements are ad hoc decisions and that no thought is given to long-term planning. This is entirely untrue. Long-range planning is a function integrated among the various Departments and includes outside consulting expertise in areas of marketing, engineering and construction. The Southern Waterfront Master Plan contains cargo projections, criteria and timetable for provision of facilities. In 1981, the Port began planning the full build-out of the intermodal rail yard and other improvements now being completed.

The Issue of the ICTF

The Report endorses the development of the Intermodal Container Freight Station (ICTF) but implies that the ICTF will not function efficiently without tunnel modifications to permit double-stack rail cars. The interim ICTF is being used today, and the full build-out ICTF will function perfectly well without the tunnel modifications. Obviously, double stack capability will enhance the attractiveness of the ICTF, and that is why the Port is pursuing tunnel improvements. The Report contradicts itself in stating that the tunnel improvements are needed but that the expenditure should be deferred.

The Issue of Redirecting Bond Funds

The Report recommends that the spending of $1 million to upgrade an existing container crane and $4 million for railroad tunnel modifications be deferred. We have already programmed these funds to other revenue-generating maritime capital projects associated with the overall container terminal modernization and construction of the ICTF. The maritime improvements needed at this time far outstrip the funding available. The Report's recommendation to make an arbitrary reduction from our current plan is not a reasonable approach and raises questions about the usefulness of the Report as a management tool. The projects that are suggested to be funded with these "reprogrammed" funds are primarily for maintenance and repair, without any new revenue potential.

AUDIT STATEMENT
SECTION II.2: AUDITS OF SHIPPING LINES AND TERMINAL OPERATORS

"ALTHOUGH THE PORT WHARFINGERS CONDUCT AUDITS TO VERIFY WHARFAGE STATEMENTS, THEY DO NOT REVIEW EITHER THE PORT'S BILLINGS AND LEASE AGREEMENTS OR THE SHIPPING LINES' AND TERMINAL OPERATORS' PAYMENT AND RELATED ACCOUNTING RECORDS. AS A RESULT, THE PORT HAS INSUFFICIENT DATA TO DETERMINE WHETHER IT IS RECEIVING THE CORRECT AMOUNT OF REVENUES WHICH IT IS OWED FROM THE SHIPPING LINES AND TERMINAL OPERATORS."

PORT'S RESPONSE

This is incorrect. A more thorough analysis of the Port's billing and audit practices would have shown that the Port is in fact able to determine and trace the accuracy of what is owed. The recommendation reflects a lack of understanding of the structure of the Port's agreements, since they are unlike those of the Port of Oakland. Oakland has a complicated "use agreement" formula in which the previously agreed-upon discount varies depending upon actual cargo volume. The Port of San Francisco regularly audits the ship's cargo manifest, which is the basis for the fees to be paid. All revenues, including maritime, are a part of the Port's annual audit by an independent CPA firm. The Report elected to look at the Port of Oakland's audits in a year (1982) that showed a very large discrepancy. To suggest that a similar revenue gain would be found for the Port of San Francisco is a classic "apples and oranges" comparison.

Port's Detailed Response:

The Issue of Audits

The Report provides no evidence of any problems with the current audits of shipping line revenues. Rather than relying upon a thorough analysis of the Port of San Francisco and the Port of Oakland procedures for reviewing wharfage statements, billings, collection procedures and annual audits, it merely makes a hypothetical revenue comparison with the Port of Oakland, which has different procedures and different types of shipping line agreements.

Any audit to determine if the Port "...is receiving the correct amount of revenues which it is owed from the shipping lines and terminal operators" must start with the same source documents, i.e. the cargo manifests. The Port regularly audits the cargo manifests of its shipping lines to determine the accuracy of the wharfage statements and billings. The results of these audits have shown both additional billings and refunds.

Once the wharfage statement is submitted to the Port, the Wharfinger checks the calculations of each wharfage statement and makes any other correction that appears necessary before a bill is generated by the Accounting Division. This procedure greatly reduces any mathematical errors or misapplication of the tariff which is the source of almost all of the "additional revenue". The Accounting Department routinely follows up on the collection of maritime bills, and in those cases where normal

collection procedures are not totally effective, the Maritime Department will follow up directly with the shipping lines. If the Maritime Department efforts do not work, the collection is turned over to the City Attorneys Office.

As part of the Port's regular annual audit by an independent CPA firm, all Port revenues, including maritime, are audited to verify that revenues are being properly reported and recorded. The results of the Port's annual audit are submitted to the City Controller.

AUDIT STATEMENT
SECTION III.1: DURATION OF LEASES VERSUS LICENSES

"IN LIEU OF AWARDING LEASES, WHICH IN SOME INSTANCES REQUIRE THE USE OF COMPETITIVE BIDDING UNDER THE PORT'S PROCEDURES, THE PORT HAS CHOSEN TO AWARD 415 LICENSES TO CERTAIN TENANTS. WHILE THESE LICENSES CAN BE TERMINATED BY EITHER THE PORT OR THE TENANT UPON 30 DAYS WRITTEN NOTICE, IN FACT THE PORT HAS PERMITTED NUMEROUS LICENSES TO REMAIN IN EFFECT FOR YEARS. THESE LICENSES ARE PRESUMED TO HAVE BEEN RENEWED EVERY 30 DAYS IF NEITHER THE PORT NOT ITS TENANTS TAKE ANY ACTION TO TERMINATE THE LICENSES. SINCE THESE LICENSES, IN CONTRAST TO LEASES, ARE AWARDED BY THE PORT WITHOUT UTILIZING ANY COMPETITIVE BIDDING PROCEDURES, THE PORT CANNOT BE ASSURED THAT IT HAS MAXIMIZED ITS REVENUES FROM THESE TENANTS."

PORT'S RESPONSE

Seventy-five percent of the licenses are for office space which is rented for the maximum the market will support. Most of the office uses are in the Ferry Building. Under the recently terminated agreement with a prospective developer of the Ferry Bldg., the Port was prohibited from offering leases pending development of the building. Now the Port is negotiating leases for office space in these areas. Licenses have been used to allow the Port to derive revenue from sites and uses that would not be able to get the permits or regulatory approvals for permanent status. In some cases, licenses are the choice of tenants. Licenses are for uses such as valet parking, shoeshine and flower stands, and sidewalk vendors.

Use of license agreements allows the Port to derive revenues from parcels that would otherwise be subject to lengthy environmental and permitting requirements. Until very recently when an agreement was reached, after sustained efforts by the current Port leadership, BCDC would not give permits for change of use or long-term tenancies to non-maritime users in maritime and Port Priority zones. Even with buy-out provisions, BCDC is reluctant to have the Port encumber maritime reserve areas with commercial tenants. Licenses are also used so that the Port can readily recapture property for planned future uses. For example, licenses have been used for restaurants that have storage or garbage areas on Pier 45 at Fisherman's Wharf because the pier is out to bid for hotel development.

AUDIT STATEMENT
SECTION III.2 COMPLIANCE WITH LEASES AND LICENSES

"AS A RESULT OF INCOMPLETE DATA CONTAINED IN THE PORT'S 117 LEASE AND 415 LICENSE FILES, THE PORT DOES NOT KNOW IF ITS TENANTS ARE IN FULL COMPLIANCE WITH ALL OF THE PROVISIONS OF THESE LEASES AND LICENSES. FOR EXAMPLE, IN THE PAST YEAR, THIRTY ADJUSTMENTS TO INCREASE RENT, WHICH WERE PROVIDED FOR UNDER THE LEASE AND LICENSE AGREEMENTS, WERE NOT MADE ON A TIMELY BASIS."

PORT'S RESPONSE

All Port leases have been reviewed and updated as the Report states. All of the licenses will be reviewed for compliance in 1985/86. One of the Port's goals in its "Management By Objectives" (MBO) program for the current year is completion of compliance review of all its agreements. Any needed adjustments are now being made on a timely basis as a result of this effort.

AUDIT STATEMENT
SECTION III.3: LEASE ADJUSTMENTS FOR RESTAURANT TENANTS

"UNDER THE EXISTING PROVISIONS OF THE PORT'S LEASES WITH SOME OF ITS RESTAURANT TENANTS, THE PORT IS ENTITLED TO ADJUST THESE TENANT RENTS BASED ON AMENDING THE PERCENTAGE OF GROSS RECEIPTS EVERY FIVE YEARS. HOWEVER, THE PORT HAS NOT ADJUSTED THESE LEASES FOR EITHER OF THE FIVE-YEAR PERIODS BEGINNING IN 1980 AND IN 1985. BY FAILING TO ADJUST TENANT RENTS IN 1985 AND IN 1980, THE PORT HAS LOST ESTIMATED REVENUES FROM THEIR RESTAURANT TENANTS OF AT LEAST $675,000 FROM THEIR RESTAURANT TENANTS. INCREASING RENTS TO ITS RESTAURANTS TENANTS, IN ACCORDANCE WITH THE PORT'S LEASE PROVISIONS, WOULD RESULT IN ESTIMATED INCREASED REVENUES TO THE PORT OF AT LEAST $380,000 ANNUALLY."

PORT'S RESPONSE

The Report is again misleading in that not all of the 1975 restaurant leases allowed rental adjustments in 1980. The Report implies it is the Port's right to bring these leases up to the Port's "current rate" for new restaurants. In fact, each lease is different, and any adjustment is subject to the lease terms which define the geographic boundary of the survey area for the purpose of determining comparable rents, etc. By use of ambiguous terms and a reference to Fisherman's Wharf, the Report implies widespread delay in increasing restaurant rents at Fisherman's Wharf. Actually, only four restaurants in the Wharf area are at issue. The Report calculates "lost" revenue by using percentage rent standards that are the highest of any being charged. There is no evidence to document lost revenues, since a percentage rent survey may well indicate that no adjustment or a downward adjustment is appropriate. As the Report states, the Port has time to conduct a survey, adjust rents and collect any monies which may be due. This is a staff priority, and an automated "tickler" system will be used in the future. References to decisions reached by the Port Commission in 1980 are not relevant. These decisions were made by responsible parties after due deliberation on facts which showed no adjustment was justified at that time.

AUDIT STATEMENT
SECTION III.4: LEASING OF PORT FACILITIES

"THE COMMERCIAL PROPERTY DEPARTMENT HAS NOT AGGRESSIVELY ATTEMPTED TO LEASE THE PORT'S COMMERCIAL, INDUSTRIAL AND OTHER SPACE. IN CONTRAST TO A CITYWIDE VACANCY RATE OF APPROXIMATELY 13.4 PERCENT FOR OFFICE SPACE, THE PORT'S VACANCY RATE FOR OFFICE SPACE MANAGED BY PORT STAFF, IN CONTRAST TO THE PORT'S OFFICE SPACE MANAGED BY OUTSIDE DEVELOPERS, IS AN ESTIMATED 23.6 PERCENT. AS A RESULT OF VERY LIMITED MARKETING ATTEMPTS TO LEASE PORT FACILITIES, WE ESTIMATE THAT THE PORT HAS LOST AT LEAST $298,800 IN LEASE REVENUES DURING THE PAST YEAR FOR JUST TWO OFFICE BUILDINGS. BY DEVELOPING A SOUND MARKETING PLAN, WE ESTIMATE THAT THE PORT COULD INCREASE ITS PROPERTY RENTAL INCOME BY AT LEAST $375,828 ANNUALLY."

PORT'S RESPONSE

The vacancy rate the Port has documented is approximately the same as the Citywide average (15%). The Report exaggerates the amount of vacant office space and the vacancy rate by a selective inventory and by eccentric standards that are illogical and contrary to norms in the real estate industry. The Report's inventory of Port-controlled office space does not include office space when it is occupied in conjunction with or adjacent to maritime operations such as ship repair, import-export or shipping lines -- even though, when such space is vacant, it is marketed by the Commercial Property Department for office tenants. The audit team did not count Crowley Maritime's occupied office space at Pier 9, but did count similar vacant office space in Pier 35. The Report did not count 32,000 sq.ft. of Port offices in the Ferry Building even though the Port vacated space on the first and second floors and is now renting to other tenants. The result is that the Report magnifies the vacancy rate by comparing it to a smaller total than actually exists.

Port's Detailed Response:

The Issue of Office Occupancy

The Port has twenty-four facilities which contain rentable office space under the Port's day-to-day control (i.e. this excludes office buildings operated by others on Port land such as Blue Shield or Roundhouse). The total leasable office space in these facilities is 404,131 sq.ft. The total occupied is 344,452 sq.ft., and the total vacant is 59,679. Thus, occupancy is 85% and the vacancy rate is 15% (documentation on file at the Port).

The S.F. Examiner (4/18/86) stated that as of April 1, 1986, the vacancy rate for the Financial District was 15.1%, with South of Market financial district at 22.7% and the Van Ness corridor at 23%. Therefore, the Report's conclusion that the Port would receive increased revenues by a reduction of its vacancy rate from the citywide average is meaningless. Further, considering the drop in rents for prime office space with superior location and amenities (from $28+ to low $20's per sq.ft. according to the Examiner article noted above) the Port has achieved and maintained exceptionally high office occupancy.

The Report's recommendation that the Port "market" office space does not comport with the contradictory recommendation to put it out to bid. In today's marketplace, competitive bidding is a pointless and excessively time-consuming exercise.

The Issue of Area Available for Development

This section of the Report states that the Port has 908,109 sq. ft. of vacant sites and buildings that could be developed for light industrial or similar uses. Yet this total number includes the 434,000 sq. ft. referred to in Section I. After exclusion of the 300,300 sq.ft. under environmental review for a maritime warehouse center, exclusion of other buildings that can not be rented, and exclusion of 289,136 sq.ft. under the control of the Redevelopment Agency under a long-term lease, the accurate total is about 146,729 sq.ft.

The Report attempts to perpetuate the myth that the Port has many development sites that are lying fallow due to inept management. The "value" of land obviously depends on what development or uses are allowed. For example, the waterfront Promenade represents 1,600 feet of Bay front land. It is dedicated to open space under the City's Northeast Waterfront Plan, the BCDC Special Area Plan, and the Board's adopted South Beach / Rincon Point Redevelopment Plan. What is its "value"?

The Issue of How Port Pursues Commercial Property Development

The Port uses the financing provided by developers under long-term leases to accomplish development of surplus property. The leases provide that the Port participates in the profits from these developments receiving a minimum rent plus "percentage rents" based on the profitability of the development. This has been standard practice for many years.

Many parcels have been or are being developed on this basis, including seawall lots (inland of the Embarcadero) that contain developments such as the Blue Shield building, Francisco Terraces, Roundhouse Plaza, 900 Front St, Fog City Diner, etc. Others, such as at Fisherman's Wharf and Pier 39, have been developed on pier coverage. Most commercial property leases require the tenants to maintain the substructure and site in good condition. Maintenance is not the Port's responsibility, and the lease return reflects this arrangement.

A team of Port staff, including the finance director, property manager, planning and legal staff, and outside consultants, follow a policy of offering property for major development in a planned sequence. A schedule for these offerings has been developed under the leadership of the current Executive Director.

The first offering was Seawall Lot 318, leased as an adjunct to the rehabilitation of the Magnin building. The second was Piers 1-1/2, 3 and 5, including the refurbishment of three historic bulkhead buildings and a new office building with almost 80,000 sq. ft. of public plazas. The current offering is the Pier 45 Hotel and Hyde St. Pier commercial fishing complex, now published and distributed as a Request for Qualifications. The next offering will be Seawall Lot 314 (Bay at the Embarcadero). Following this will be Pier 24. The preparation and subsequent negotiation of these offerings are proceeding in a timely fashion.

The Issue of Land Use Restrictions

- Many of the sites that the Report refers to as unused or underutilized are designated by BCDC for Port Priority, Maritime and Seaport development. Port property can not be developed for the traditional "highest and best" use. The obstacles are primarily the land use restrictions imposed by the State Lands Commission, BCDC, City zoning and master plan, etc. As a consequence of numerous court cases and interpretations, these lands can not be developed for residential or general office space.

Since land use restrictions are "invisible" controls on what can be done with Port property, it is easy to disregard their importance in governing what can be built, and, in turn, the profitability of the potential development. The Port is the trustee of these lands for the State of California. The public trust doctrine, embodied in the State's constitution, requires that Port lands be used for purposes of statewide importance and not for purely private purposes.

The State Lands Commission has made it very clear to the Port that it is not permissible to develop "general" office space unrelated to the conduct of water-borne commerce or purposes of statewide importance (see People vs California Fish Company and City of Berkeley vs Superior Court). The SLC requires that the Port and potential developer submit criteria for "qualified" tenants prior to beginning a project, and that they demonstrate a demand by such qualified tenants for 150% of the space to be built.

The Issue of the Property Department as a "Passive Money Collector"

The Report states that the Commercial Property Department is currently like a passive money collector with staff that is there merely for the maintenance of accounts. This is completely false. Over a two-year period (April 1984-March 1986) the Commercial Property Department has:

- Negotiated and Processed 266 new rental agreements.
- Booked and Coordinated 37 special events at Piers 35 and 45.
- Issued and Monitored 42 filming permits.
- Increased annual billings by more than $750,000 through lease rental rate adjustments (CPI's and others).
- Increased annual billings on existing licenses by more than $635,000 through scheduled rate adjustments.
- Increased rates for parking stalls by 15 to 35%.
- Developed and commenced implementation of a plan for installation of 300 new parking meters.
- Assisted in collection of several hundred thousands dollars in delinquent accounts.
- Audited 117 leases and corrected compliance deficiencies discovered thereby, resulting in collecting over $175,000 in back payments of rent.
- Corrected many squatter/encroachment problems by evicting illegal users or securing payment for the space (including pproximately $70,000 in back payments).
- Secured several facilities which had a history of squatter/vagrant problems, including Piers 1, 1-12, 3, 5, 7, 33, 66 and several southern waterfront seawall lots.

Continued, next page

- Developed or formalized policies and/or procedures for:
  - Space rental (licensing & leasing)
  - Termination of tenancies
  - Special events rentals or Piers 35 and 45
  - Approval of tenant signs
  - Tenant insurance requirements
  - Checklist for monitoring performance of contract janitors and security guards.
  - Work orders
  - Monthly Rental report through which billing errors are discovred and corrected.
- Worked with other City departments to establish policies and procedures to deal with problems such as pedicabs, street performers, street vendors, squatters, vagrants.
- Designed and commenced implementation of computerized vacancy reports, tickler systems and lease abstracts.
- Contributed significantly to development of Redevelopment Agency Lease/Option, Piers 1-1/2, 3 and 5 Lease/Option and developer selection, and Pier 45 RFQ/RFP.

RECOMMENDATIONS ALREADY IN PROGRESS AT THE TIME OF THE REPORT

Many Report recommendations are for actions or improvements that have been under way for some time. These include:

a) Development of a new collections policy (completed);

b) Conversion of electric service to PG&E (on-going since 1972);

c) Extensive use of monthly management financial reports;

d) Compliance review of all tenant leases;

e) Development of an automated facility cost/revenue program;

f) Reorganization of MIS Department resulting in a 100% increase in productive output and elimination of outside consultants;

g) Completion of procedures manuals for purchasing and personnel; development of manuals for leasing and payroll;

h) Use of "tickler" files for lease compliance/adjustments;

i) Auditing of shipping contracts through manifests; and

j) Use of short-term leases rather than licenses for non-conforming uses in maritime reserve areas.

RECOMMENDATIONS WITH WHICH WE CONCUR

- The report contains many useful recommendations. We concur with the recommendations in the following areas:

  a) China Basin Houseboat Community;

  b) Fireboat; and,

  c) Provision of Electricity.

  Conversion of electrical service to PG&E has been Port policy and an on-going effort since the early 1970's. Staff has met with the Mission Creek Harbor Association and is in the process of finalizing lease terms for Port Commission approval. At Port staff's urging, the Harbor Association has been made a co-applicant on the Bay Conservation and Development Commission permit for the project. This places compliance responsibility on the Association.

PORT LAND LABELED "UNUSED OR UNDERUTILIZED" IN THE AUDIT STATEMENT

Actual Land Use Disposition and Availability for Development

Facility	Location (between)	PORT'S RESPONSE
Pier 98	South end of Cargo Way and India Basin	Spit of land created for proposed "Southern Crossing" bridge. Considered illegal fill by BCDC; BCDC could require its removal at great cost. Instead Port proposed 4 acres for maritime/terminal and 11 acres for public access/habitat as part of "mitigation" required for terminal expansion permit. BCDC OK'ed.
Pier 96	Cargo Way and Bay at Jennings Street	Admittedly a vacant office building within the terminal. All of the area referred to is part of terminal development area. 100-foot strip would not be developable even if it was available, due to set-back, off-street parking and loading requirements. This is a totally unrealistic site for development unrelated to terminal. All this area is designated under BCDC Plan as "Port Priority" only.
SWL 352	Cargo Way and Pier 94 and Islais Creek	Site is not available for "mixed use" development; site is a BCDC-designated Seaport site and Port Priority area. Adopted master plan and EIR call for container terminal expansion here. BCDC permit could not be obtained for non-maritime use. "Natural" state is Bay waters.
SWL 344	Cargo Way and Piers 90/92	See above. Development recommendations totally ignore BCDC limitations on use. Area is designated Port Priority. Current uses are in support of maritime activities.
*Islais Crk SWL 354 Piers 84, 86, 88	Marin and Islais Streets	Islais Street is waterway and a street on paper only. Area does need cleanup. Port holds a BCDC permit to use south side of channel for rail trestle alignment to access Piers 94-96 and ICTF. In the Bay Plan this area is designated for public access and does not have development potential. Again, verify with BCDC at 557-3686.

*The reference to this facility was deleted from the Budget Analyst's report.

Facility	Location (between)	PORT'S RESPONSE
* Pier 80	Marin, Army and Twenty-sixth Streets & Illinois, Michigan, Maryland and Massachusetts Streets.	This is not Port property; it is WP/UP (Upland) railyard. The Pier 80 building does have some space for lease. Perception that this is Port land should be corrected in report. *
SWL 349	Twentieth and Twenty-second Streets and Pier 70 and Port's shipyard facility used by Todd.	Pier 70 Container Freight Station (CFS) and warehousing center are under environmental review. The bulk of the site is a BCDC-designated "Near Term" Seaport site. Call BCDC (557-3686) and inquire about the "mixed use" development potential. We did.
SWL 345 Piers 64 and 54	Illinois, Mariposa and China Basin Streets extending to Pier 50	Disagree unused and underutilized; small boat repair uses in demand.
SWL 343	Illinois and China Basin Streets near Mariposa Street	Property leased to production and sales uses, in addition to parking.
China Basin	Channel and Berry Streets	Port-owned sixty-foot strip has little, if any, development potential. Mission Bay project is being planned for 200 acres of surrounding private land. In all alternatives, channel is dug out and greatly enlarged thus eliminating any "land" areas that now exist. This is being done at the insistence of the "public" through the City Planning Department's process.
SWL 336 Pier 46B	Berry, Third Streets and China Basin	Building houses Port Maintenance Department, Belt Line storage and industrial users. Cost to relocate Maintenance Dept. is under study.
SWL 335 SWL 334 SWL 333 SWL 332 SWL 331 Pier 40	Embarcadero and: Berry Street Berry, Second and King Townsend First and Brannan Fremont and Brannan King Street	South Beach project of the Redevelopment Agency. The Port has not had control over land uses here since the Board of Supervisors designated it a Redevelopment Area. This was a Board, not a Port, decision. Redevelopment Agency has funding sources, such as CBDG and tax increment financing, that are not available to Port.

*The reference to this facility was deleted from the Budget Analyst's report.

Facility	Location (between)	PORT'S RESPONSE
SWL 330 SWL329	Embarcadero and: Beale and Bryant Main and Bryant	Scheduled for future development. Staff has received and is considering two development proposals that involve an international trade fair/exhibit. City is trying to limit development potential by reducing height limit from 105 ft. to 40 ft.
Pier 34	Brannan Street	If rebuilt, under BCDC regulations would have to be "water dependent" use with proof of "no alternative upland location".
Pier 30/32	Brannan and Bryant Streets	Being rebuilt for container freight station (CFS), cold storage and centralized customs. Has undergone environmental review; BCDC permit filed in March. Design contract awarded by Port Commission. Construction to begin late 1986 or early 1987.
Pier 24	Harrison Street	Designated for mixed use, community-oriented retail, recreation and public access/assembly in BCDC and City's master plan. However, structure would have to be rebuilt, and on rebuilt structure BCDC would not allow the planned uses.
* SWL 328	Bryant and Harrison	SWL 328 is on a long-term lease to owners/developers of adjacent building (Magnin Bldg.) which is not on Port property. Port has recapture rights. *
SWL 327 SWL 348 SWL 347S SWL 347N	Steuart and: Folsom Folsom and Howard Howard Howard	327 and 348 to be used as a park by the Redevelopment Agency. SWL 347N is under license to developers of adjacent parcel where they have built a public plaza and placed a sculpture and fountain. SWL 347S is leased to State for parking.
Agriculture and Ferry Buildings	Mission and Market Streets	Buildings are occupied by long term tenants (World Trade Club; Limbach, Limbach & Sutton), Port offices and by numerous offices. Port agreement with Continental Development Corp. for rehab of buildings did not allow Port to enter into leases.

*The reference to this facility was deleted from the Budget Analyst's report.

Facility	Location (between)	PORT'S RESPONSE
Piers 1-1/2, 3, and 5	Washington and Broadway	Developer selected in August 1985. Port staff and developer working with BCDC and State Lands to get project underway.
SWL 351	Washington and Jackson	Site has a gas station and parking uses on a lease with ten years remaining.
Pier 9	Vallejo Street	Waterfront headquarters of Crowley Maritime tugs and water taxi. Base of operation for the Bar Harbor pilots and Inland pilots. Also long-term office uses with 30-day termination due to DCP limitations.
SWL 324 SWL 323 SWL 322-1	Davis, Broadway, Vallejo Davis, Vallejo Front, Broadway and Vallejo Streets	SWL 324 on long term lease to Victoria Station restaurant. SWLs 324 and 322-1 are cut in half by Embarcadero freeway ramps. Development potential would be doubled with freeway removal. SWL 322-1 has a gas station and parking uses.
SWL 321 *SWL 320 *	Green Street Union Street	SWL 321 under development agreement * with office developer. Project has EIR and all required approvals. SWL 319 is site of Fog City Diner, one of Port's most lucrative uses.
Pier 27/29	Lombard and Chestnut Streets	True.
Pier 33	Bay Street, Northpoint Street, Embarcadero	Center for the herring fleet and related commercial fishing uses.
SWL 314	Bryant and Northpoint Streets	Lease expires in 1987. Port has begun process of putting out to bid using consultants to prepare development scenarios and do the EIR "up front".
Fishermans Wharf		Pier 45 has been advertised for developer interest (RFQ released in March 1986) to build hotel and public assembly/research facilities. Pier maintenance under long-term leaseholds is tenant responsibility and factored into lease terms.
* Embarcadero and Beltline		Land is already planned to be part * of Embarcadero/Muni. No basis to claim right-of-way could be "very valuable" to Port since the Burton Act reserves to the State any lands needed for roadway improvements.

*The reference to this facility was deleted from the Budget Analyst's report.

WRITTEN RESPONSE OF THE FIRE DEPARTMENT

CITY AND COUNTY OF SAN FRANCISCO
SAN FRANCISCO FIRE DEPARTMENT

EMMET D. CONDON, Chief of Department
CHARLES D. CRESCI, Deputy Chief...Operations
ROBERT E. ROSE, Deputy Chief...Administration

260 GOLDEN GATE AVENUE
SAN FRANCISCO, CALIFORNIA, 94102
(415) 861-8000, EXTENSION 281

April 29, 1986

Mr. Harvey Rose
1182 Market Street, Suite 422
San Francisco, CA

ATTEN: Ms. Debra Newman

RE: Harvey Rose Report - Fireboat Phoenix

Dear Mr. Rose:

In reference to your report to the Board of Supervisors, Section IV.2: Fireboat - we would like to make reference to several discrepancies in the report.

First, Page 59 states that there is a crew of 10 - This is of course, true except that one of the lieutenants is a Swing officer and shares his tours among several other companies.

Page 60 lists use of fireboat and lists as "#6. Providing ceremonial water displays". This is not a primary function of the fireboat but rather a courtesy supplied by the City of San Francisco for ceremonial occasions. The fireboat is not "out of service" during such displays, but is "available for response". No credit for service is taken during such displays.

Where there is a statement regarding fireboat responses, the following statements are made:

"Based on the Fire Department's monthly tabulations of all fireboat responses between January 1981 and December 1985, we found that the fireboat responded to an average of 1.22 calls per month, requiring an estimated 1.77 hours of operation per month. This equals approximately one and one-half hours per response per month during 1981, 1982 and 1983. Subtracting the number of false alarms, rescues and ceremonial uses of the fireboat, the fireboat was used an average of 0.8 times, or less than once per month to fight fires on vessels or along the waterfront in 1981, 1982 and 1983. Comparatively, in 1984 and 1985, the fireboat was in service an average of 4.8 times per month; the average for fire-fighting calls only was 1.8 times per month.* The asterisk stated

"these data do not include calls for the fireboat to be on standby or instances in which the fireboat is recalled back to its berth because land based engine companies are used instead".

The figures as used in the report, do not reflect the figure taken from the San Francisco Fire Department Comand & Control (CAD) Computer Assisted Dispatch system, out of monthly service. The figures from the Computer Assisted Dispatch system were compiled starting in January 1983 through to March 1986.

We have listed these figures as well as averages:

Total Emergency Response:	638
For 39 month period:	16.4 runs per month

(If 8 Greater Alarms and 37 Special Calls are included - this will average out to 17.5 runs per month)

Total Hours Service:	174.1
For 39 Month period:	4.5 hours per month

Total False Alarms:	303
For 39 month period:	7.8 false alarms per month

(This leaves 8.6 runs per month for this 39 month period - 638-303 = 335 runs)

For this 39 month period or adding 8 Greater Alarms and 37 Special Calls: 380 ÷ 39 = 9.7 runs per month.

All Fire Department figures consider all alarms responded to other than False Alarms as legitimate working figures. These percentages are quite uniform for a number of our companies. Why the criteria of removing rescue calls was set by your figures is much a mystery. Rescue calls are legitimate calls. Standby service is still considered as service and is often a judgment of the Chief Officer of not tying the fireboat up when it might be better employed as "available for response". As stated above, the computer gives no credit for ceremonial displays so our figures do not reflect this as service.

As you have stated it is the San Francisco Fire Department's opinion that due to the deteriorated conditions of a number of structures on the port; the increase in shipping recently; the improved outlook for business with the Port of San Francisco; and the increased use of the San Francisco Port by the United States Navy, there would be a negative impact by the reduction in any way of fireboat service to the Port of San Francisco.

The Fire Department has no objections to a study of the fireboat's use to the port by experts. The Fire Department of course, reserves the right to complete a study of its own to answer any study done by an independent consulting firm.

If you have any questions, please call me at 861-8000, extension 245.

Very truly yours,

Edward J. Phipps
Deputy Chief
Administration and
Support Services